Financial Statements

Empreendimentos Pague Menos S.A.

December 31, de 2021
With the Independent Auditor's Report

Empreendimentos Pague Menos S.A.

Financial Statements

December 31, 2021 and 2020

Table of Contents

EARNINGS RELEASE 4Q21 & 2021

PagueMenos

Fortaleza, Ceará, March 9, 2022. Empreendimentos Pague Menos SA ("Company" or "Pague Menos"), the first pharmaceutical retail chain present in every state of the country, bringing health care products and services to approximately 350 Brazilian municipalities, announces its results for the 4th quarter of 2021 and the full year ended December 31, 2021.

Since 2019, our financial statements have been prepared in accordance with IFRS 16, which changed the criteria for recognizing rental contracts. To demonstrate the effects of implementing this standard and facilitate comparison between periods, we present on page 20 of this release the Income Statement for the Year excluding the effects of IFRS 16.

4Q21 and 2021 HIGHLIGHTS

- **Expansion:** opening of 80 stores in 2021 and 48 in 4Q21
- **Sales** : total growth of 10.3% in 2021, with 9.9% in same stores sales and 9.3% in mature stores
- **Digital** : 85.3% growth in sales in 2021, reaching 8.8% of total sales in 4Q21
- ***Clinic Farma***: 2.5 million consultations in 2021 (+196% vs. 2020)
- **Adjusted EBITDA** : R$ 671.0 million in 2021, increase of 17.2%, with 8.3% margin (expansion of 0.5p.p).
- **Adjusted Net Income:** R$176.6 million in 2021, increase of 83.9%, with 2.2% net margin (expansion of 0.9p.p).
- **ESG:** announcement of the commitments and 32 goals composing our ESG agenda

FINANCIAL HIGHLIGHTS (R$ million)	4Q20	4Q21	Δ	2020	2021	Δ
Gross Revenue	**1,955.3**	**2,074.8**	**6.1%**	**7,308.4**	**8,062.9**	**10.3%**
Gross Profit	**574.8**	**616.7**	**7.3%**	**2,120.7**	**2,420.6**	**14.1%**
% Gross Margin	*29.4%*	*29.7%*	*0.3 p.p.*	*29.0%*	*30.0%*	*1.0 pp*
Contribution Margin	**214.9**	**221.4**	**3.0%**	**768.6**	**900.4**	**17.1%**
% Contribution Margin	*11.0%*	*10.7%*	*(0.3 p.p.)*	*10.5%*	*11.2%*	*0.7 pp*
Adjusted EBITDA	**157.8**	**159.0**	**0.7%**	**572.4**	**671**	**17.2%**
% Adjusted EBITDA Margin	*8.1%*	*7.7%*	*(0.4 p.p.)*	*7.8%*	*8.3%*	*0.5 pp*
Adjusted Net Profit	**37.5**	**26.0**	**(30.8%)**	**96.0**	**176.6**	**83.9%**
% Adjusted net margin	*1.9%*	*1.3%*	*(0.6 p.p.)*	*1.3%*	*2.2%*	*0.9 p.p.*

OPERATIONAL HIGHLIGHTS	4Q20	4Q21	Δ	2020	2021	Δ
# of stores	1,105	1,165	5.4%	1,105	1,165	5.4%
# of Stores with *Clinic Farma*	809	879	8.7%	809	879	8.7%
Average store sales/month (thousand BRL)	590	604	2.4%	547	592	8.2%
# of Consultations (thousand)	28,058	28,191	0.5%	108,937	108,495	(0.4%)
Average Ticket (BRL)	69.69	73.60	5.6%	67.09	74.32	10.8%
#of employees	18,947	19,988	5.5%	18,947	19,988	5.5%
# Average Employees/store	17.1	17.2	0.1	17.1	17.2	0.1
Avg. Sales employee/month (thousand BRL)	34.2	35.0	2.4%	31.2	34.5	10.8%
% of Sales from Digital Channels	5.2%	8.8%	3.6 pp	4.7%	7.7%	3.0 pp

MESSAGE FROM THE MANAGEMENT

The year 2021 was marked by the consistency of our results, operational improvements and important strategic investments which are shaping our future.

The solid results delivered in 2021, with same-store growth above inflation, margins expansion and 84% year over year growth in net income, exceeded the expectations we had at the time of our IPO, and were achieved despite a considerably more challenging macroeconomic scenario than originally expected, with the worsening of the pandemic, inflationary pressure on important operating expenses and erosion of the purchasing power of families. This is our 8th consecutive quarter with consistent results.

Performance indicators related to our top strategic priorities showed significant evolution in 2021. The digital channels grew 85% in the year, reaching 8.8% of total sales in 4Q21. This pace of growth exceeds that overall market, resulting in an increase in our e-commerce market share in every region of the country. The number of consultations performed at *Clinic Farma* increased almost threefold during the year, driven by demand for Covid-19 tests, and also by the change in perception of the population, which has quickly come to recognize our pharmaceutical clinics as a practical and convenient solution for primary care for both acute and chronic health problems, contributing directly to their health and well-being, and gradually becoming an important business line.

In 2021, we made considerable progress on different customer relationship fronts, increasing the loyalty, engagement and lifetime value of current customers. We made great advances in strategic partnerships with health plan operators and large companies, with sales from this channel rising from 12% of the total in 2020 to 21% in 2021 and 26% in 4Q21. Our promotional CRM actions and campaigns, increasingly leveraged by the powerful data lake built over the last few years, were responsible for 2.8% of the company's total sales, more than double the rate of the previous year. We continue to focus on each of these fronts as important levers for increasing sales, sustaining our same-store growth in the coming quarters.

In addition, important strategic investments made over the past few quarters are showing promising results on the company's performance. Our management strategy for product categories, for instance, and the resulting improvement of in-store product availability, is an equation that involves the variety of products (assortment), stockout, loss rate and working capital. Our commercial team was able to raise the average number of products in stores from 7.4 thousand at the beginning of 2019 to 9.8 thousand at the end of 2021, at the same time reducing the level of stock out and loss rate, while maintaining the cash cycle at an acceptable level. In 4Q21, product activations carried out in the last 2 years accounted for 15% of total sales, demonstrating the success of this strategy. Another important strategic investment was in attracting and retaining executives. Over the last few years, we have formed a cutting-edge team, with excellent professionals in each strategic area. Additionally, strategic investments have been made in the new Store System (POS), digital transformation, people management and customer service. In 2021, we hired more than 100 new technology professionals, reaching a headcount of over 300 people, advancing in our transformation.

2021 was also marked by the resumption of our expansion strategy. Pague Menos has always been a robust growth company. In 40 years of existence, we managed to achieve, without major mergers and acquisitions, leadership positions in the ranking of Brazilian pharmaceutical retailers. The last cycle of store openings, carried out between 2016 and 2019, brought valuable lessons. During that expansion cycle, we opened approximately 500 stores, with some mistakes which resulted in the closing of 80 of these new branches. The other 420 stores, however, are now delivering solid results, with average monthly sales of over R$600 thousand and contribution margins above 10%. As of 2020, we have embarked on an intense process of strategic review, portfolio optimization, implementation of new tools, capabilities and team members, which resulted in the detailed planning of the new cycle which started in 2021.

We opened 80 stores in 2021, which, despite being in operation for only a few months, show promising initial results, with a maturation curve in line with forecasts.

We also announced in 2021 the acquisition of Extrafarma (under analysis by the antitrust agency) in the largest pharmaceutical retail transaction in recent years, with excellent potential for synergies and the strengthening of our strategic position.

Organic and inorganic expansion, combined with a pace of same-store growth above the market average, position Pague Menos as one of the best vehicles to capture the structural growth in the country's healthcare sector, leveraged by the rapid aging of the population.

Finished 2021, 2022 has started with a very high demand for Covid-19 tests and cold and flu medications, caused by the highest level of infection since the beginning of the pandemic. It has been a trial by fire to maintain the service capacity of our Clinic Farma with a level of absenteeism five times higher than normal. Even so, our operation was able to apply more than 500 thousand Covid-19 tests in the month of January, surpassing by 2x the previous peak in May 2021, and reaching a market share of up to 20% of the testing market among ABRAFARMA member chains.

From a macroeconomic standpoint, we expect a neutral inflationary dynamics, unlike what happened in 2021, when the regulatory price readjustment for medicines was lower than expenses inflation. With the continued growth of mature stores sales, normalization of the pace of organic expansion as of 2Q22, start of Extrafarma integration and capture of synergies, we expect improvements in operating leverage.

In the second half of the year, we expect to reach “cruising speed” in organic expansion, positive inflationary dynamics and the beginning of the integration and capture of synergies from Extrafarma, after the conclusion of the CADE analysis process.

The year 2022 will also be decisive for our ESG agenda. We announced in January our 32 short, medium and long-term commitments and objectives to make a positive contribution with material issues such as global warming, diversity and inclusion, health and well-being and the reduction of inequalities. These commitments have specific goals, shared transparently at: https://esg.paguemenos.com.br/en. This agenda is the result of a 40-year history of respect for the environment, commitment to business sustainability and a focus on caring for people. Today, we are more prepared than ever to take a leading role in the ESG journey that is changing the way companies around the world are positioning themselves in society.

We remain upbeat about all the opportunities that lie ahead! We feel that we are just getting started and ready to continue working on delivering solid results and building a healthcare ecosystem capable of improving the lives of our customers and stakeholders. Thank you to everyone who contributed to the results presented and we wish you all an excellent 2022.

Mário Queirós, CEO

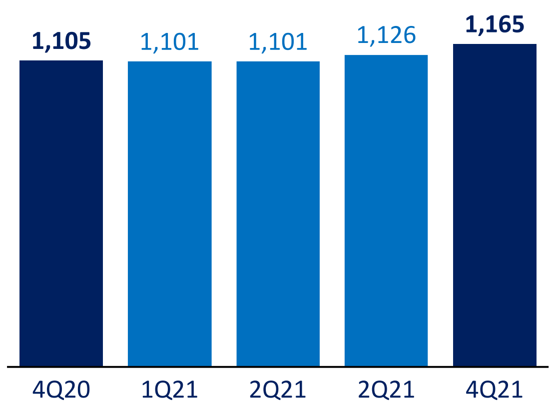
STORE PORTFOLIO

In 4Q21, 48 stores were opened, completing a total of 80 openings in the year. The portfolio reached 1,165 points of sale distributed in 348 municipalities, with ~90% being mature stores.

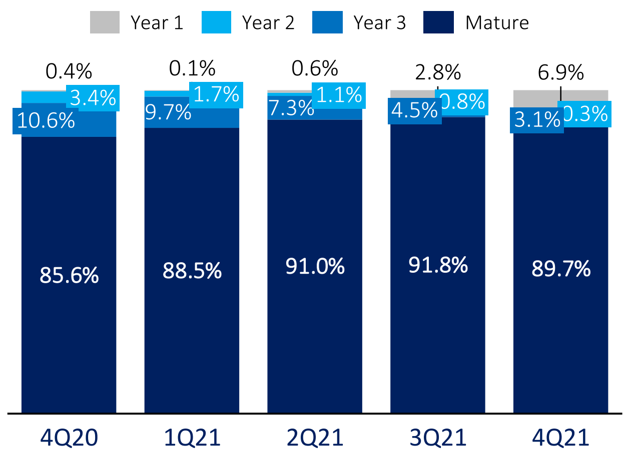
Our expansion plan continues to prioritize the North and Northeast regions, with ~80% of openings in the year in these regions, with focus on the expanded middle class (income classes B2/C/D).

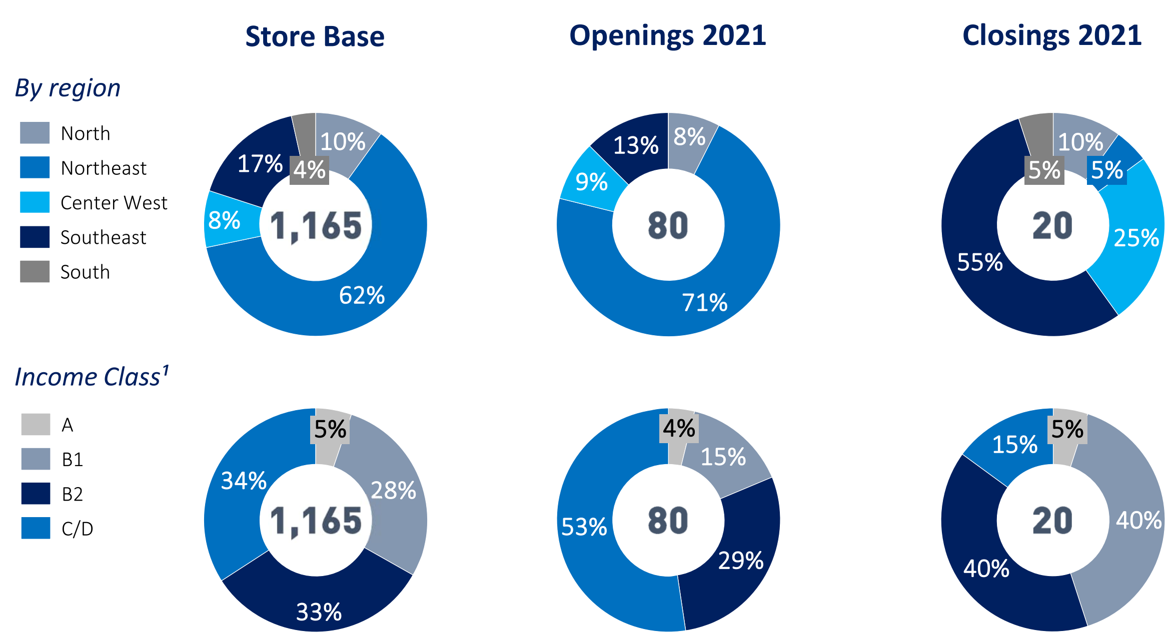
In addition to expanding the portfolio, strategic investments were also made in renovations, with 99 stores renovated during the period.

Evolution of Store Base



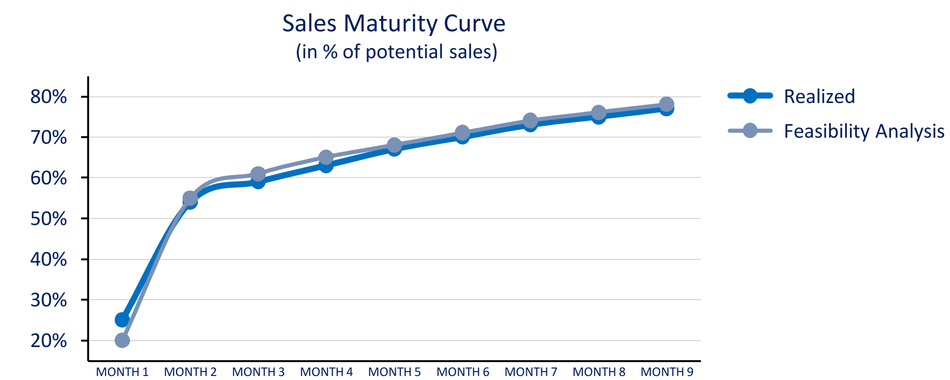
Profile of Stores by Age





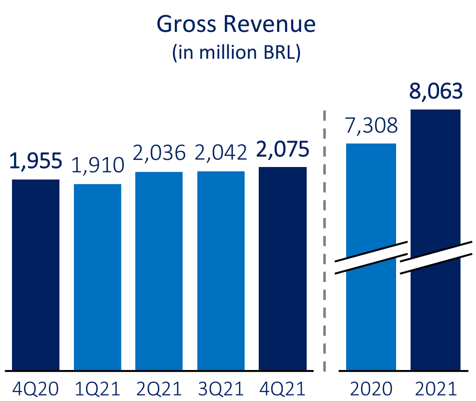
¹ Predominant social class in neighborhood of each store (5-minute isochrones by car). Segmentation follows IBGE criteria, I which Class A comprises households with an average monthly family income of BRL 22,700, Class B1 of BRL 10,700, Class B2 of BRL 5,700, and C/D of BRL 3,000 or less.

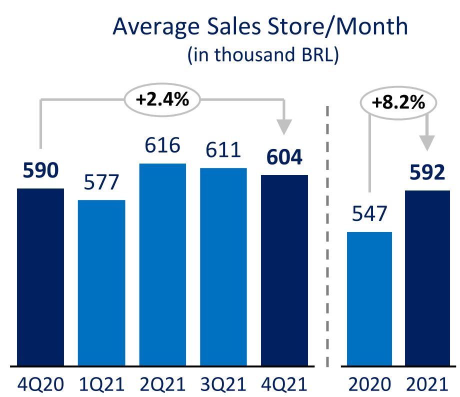
The new cohort of stores shows promising results in its first months of operation, with maturation in line with economic feasibility studies. Below, we present the maturation curve as a percentage of potential store sales at the point of maturation (3rd year of operation), considering stores with at least one full month of sales.

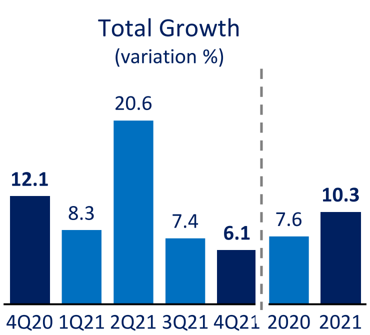


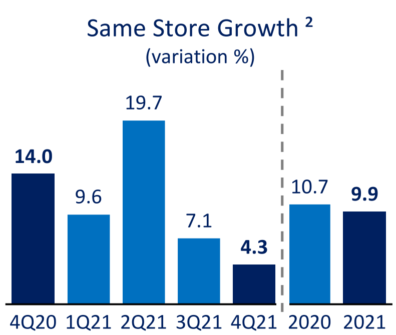
SALES

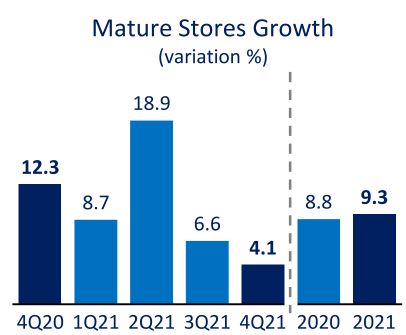
In 2021, we reached BRL 8,063 million in sales, growing 10.3% compared to 2020, with 9.9% growth in the same store sales, and 9.3% in mature store sales. For the second consecutive year, mature stores grew above the average of inflation during the period, reflecting the productivity gains generated by the digital strategy, CRM activations, improvements in supply chain and level of excellence in customer service.









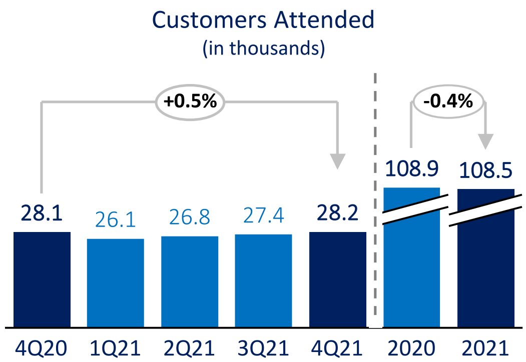


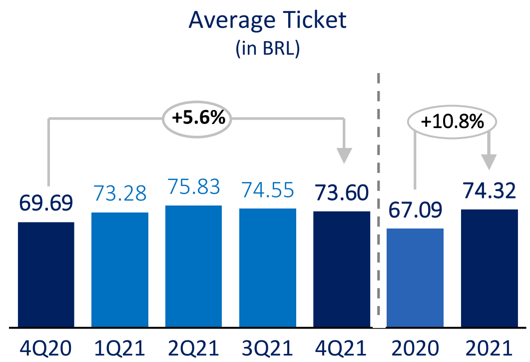
[2] The same stores concept does not consider stores temporarily closed for more than seven consecutive days. Including in the base closed temporarily, same-store growth in 4Q20, 1Q21, 2Q21, 3Q21 and 4Q21 was 13.5%, 9.3%, 20.6%, 7.1% and 4.1%, respectively.

In 4Q21, we reached R$ 2,075 million in sales, a growth of 6.1% compared to 4Q20 and growth in same-store sales of 4.1%. We observed a slowdown in the growth of the North and Northeast regions, due to the strong comparison base in 4Q20. The SSS of these regions was 3.3% in the quarter, while other regions registered SSS of 8.3%. In the two-year view, the variation was much smaller, 17.9% in the North and Northeast versus 18.6% in the other regions. It is important to highlight that we observed a reversal in the sales trend with acceleration in demand in these regions from the second half of December, boosting the pace of growth to levels above inflation.

Average monthly sales per store in the quarter were BRL 604 thousand, slightly below the level observed in the previous quarter due to the addition of 48 new stores to the portfolio, in their initial stage of maturation. Excluding new stores, average monthly sales were BRL 611 thousand, in line with the previous quarter.

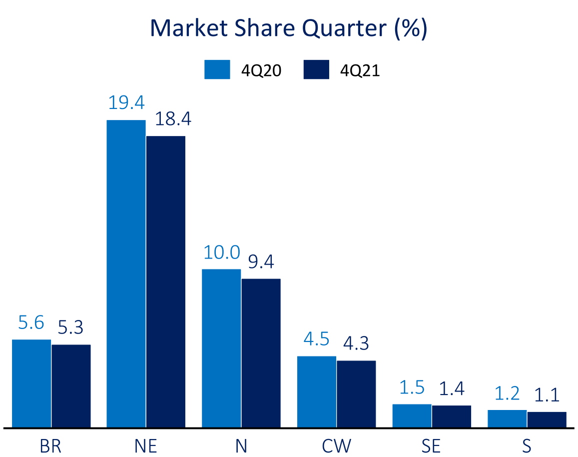
The total growth was composed of a 0.5% increase in the volume of customers attended, together with a 5.6% increase in the average ticket. Among the components of the average ticket, we observed an increase in the average price of 6.3%, partially offset by the reduction in the number of products per basket and product mix.

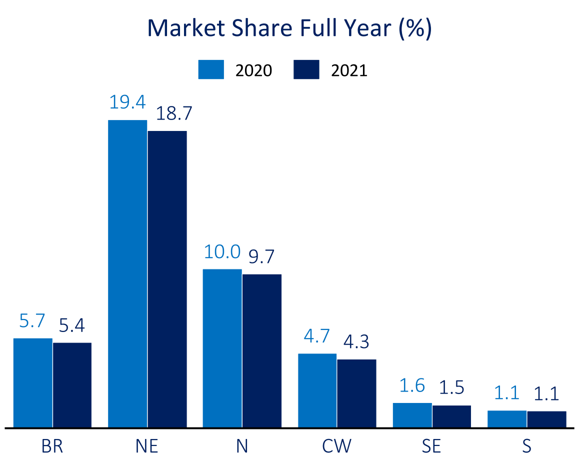




MARKET SHARE

In 4Q21, there was a reduction in market share of 0.3p.p. nationally. Notably, there were reductions of 1.0p.p. in the Northeast and 0.7p.p. in the North, mainly affected by independent and associative pharmacies, which grew 0.9p.p. in the Northeast and 1.7p.p. In the north. It is important to note that Pague Menos store openings were very concentrated in the 4Q21, so their impact is not yet perceptible in market share dynamics.





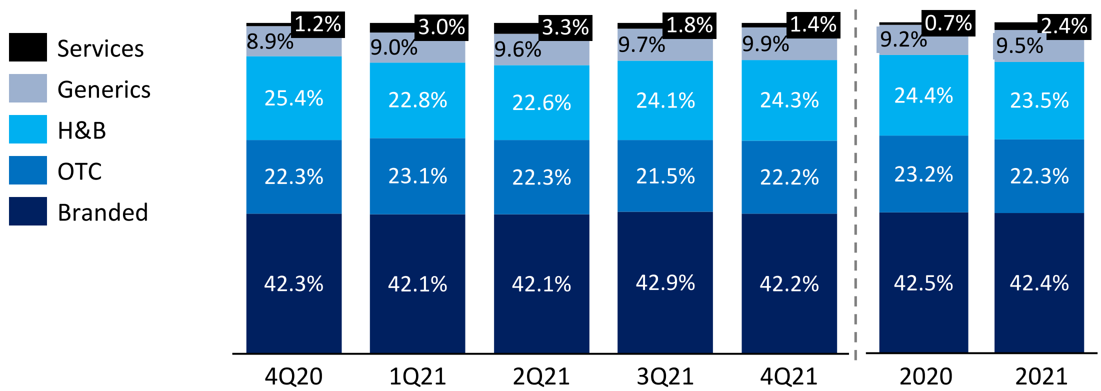
Source: IQVIA

We understand that the advance of independents and associatives pharmacies in the period is related to the following factors: i) increase in social isolation, due to the advance of the third wave of Covid, compromising traffic in shopping centers and benefiting neighbourhood pharmacies; ii) mismatch between metrics sell-in and sell-out captured by IQVIA, with acceleration in wholesale purchases driven by the expectation of increased demand due to the influenza outbreak and the advancement of the omicron variant; and iii) acceleration in the pace of store openings. In 2021, independent and associative pharmacies registered more than 4 thousand net openings, an increase of 25% in relation to the total number of store openings in 2020.

We are optimistic that the 80 stores opened in 2021 and those to be opened in 2022, in addition to the good performance of the same stores, will cause market share dynamics in coming quarters to be positive.

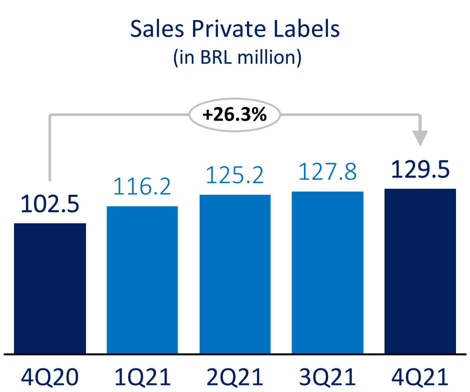
SALES MIX

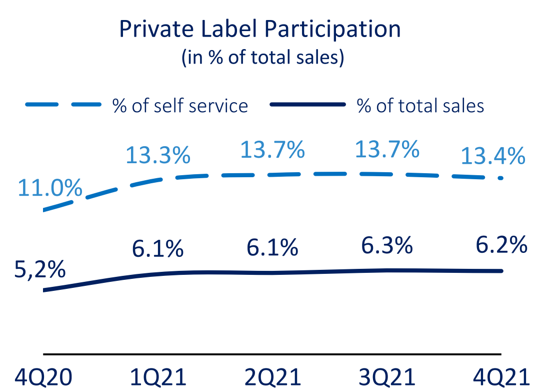
The sales mix continue showing favourable evolution in terms of the gross margin, with emphasis on the increase in the share of generics. In 4Q21, this category grew by 18.0%, reaching 9.9% of total sales. The growth recorded, above the market average, reflects efforts to expand assortment, pricing and promotional actions aimed at this category. We are still "undershare" in generics, with relevant growth potential.



PRIVATE LABEL

In 4Q21, private label products totaled BRL 129.5 million in sales, up 26.3% over 4Q20, accelerating the pace of growth observed in previous quarters. The share of total sales reached 6.2%, an increase of 1.0p.p. compared to 4Q20 and the share of total participation in self-service was 13.4%, an increase of 2.4p.p. compared to 4Q20.





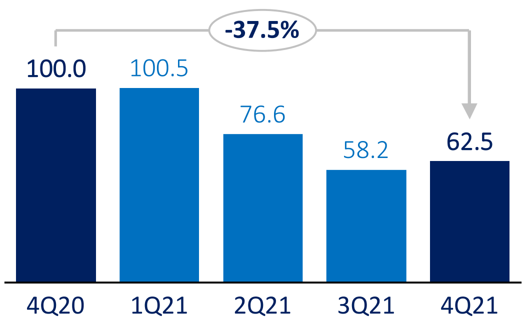
In 2021, products from our own brands totaled BRL 498.7 million in sales, representing 6.2% of total sales. This good performance is mainly a result of the launch of new products and categories, diversifying our exposure to a constantly growing proportion of the product portfolio.

ASSORTMENT AND STOCKOUT

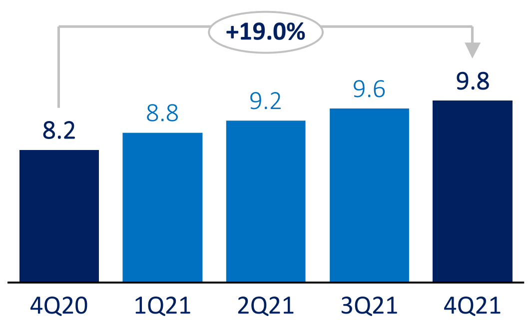
One of the main drivers of increase in average sales per store in 2021, the expansion of product availability, via the activation of new items and reduction of stockouts, showed strong improvement. In 4Q21, we recorded a stockout rate 37.5% lower than in 4Q20. In comparison with 3Q21, there was a slight increase related to the seasonality of the period and the outbreak of influenza, negatively impacting the indicator.

The average number of active products in store reached 9.8 thousand at the end of 2021, growing 19.0% compared to the end of 2020. The assortment expansion strategy continues to prove successful, with items activated in the last two years representing 15% of sales in 4Q21.

Stockout
(4Q20 = base 100)



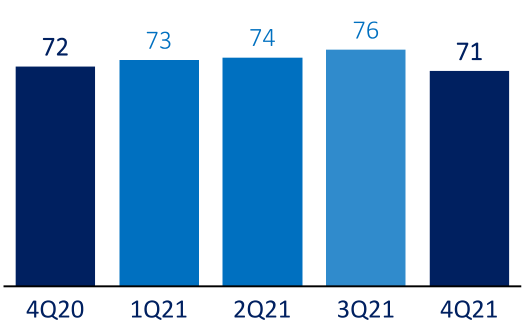
Average Assortment per Store
(Active SKUs, in thousands)



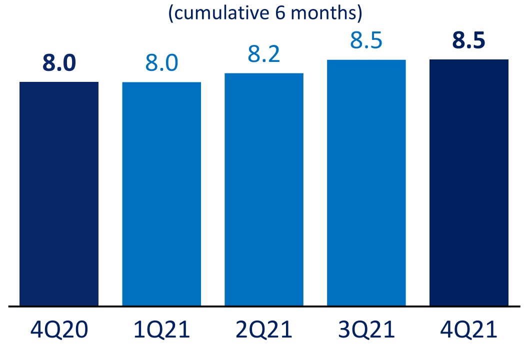
SERVICE LEVEL

In 4Q21, we observed a decline in NPS, after a period of five consecutive quarters of improvement in the indicator. We believe the movement reflects the considerable increase in employee absenteeism in stores, due to the outbreak of influenza and the advancement of the omicron variant. Despite this, we maintained the NPS above the level of excellence, reaching a score of 71. Our score in *ReclameAqui* ("Complain Here" the online complaint solutions website) ended the year at 8.5 points, stable in relation to the immediately previous quarter, with the maintenance of the RA1000 seal of excellence.

NPS



Reclame Aqui
(cumulative 6 months)



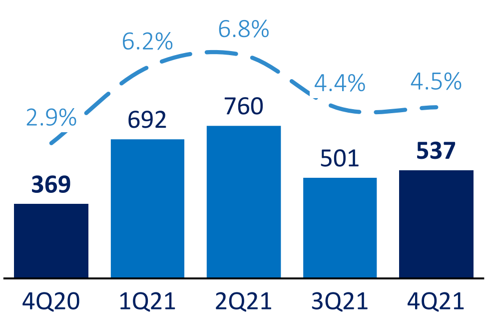
HEALTH HUB

During 2021, we consolidated our strategy of building a comprehensive Health Hub in Brazil, showing, consistent evolution of *Clinic Farma* users, expansion of the partnerships network and significant advances in the offer of specialty drugs.

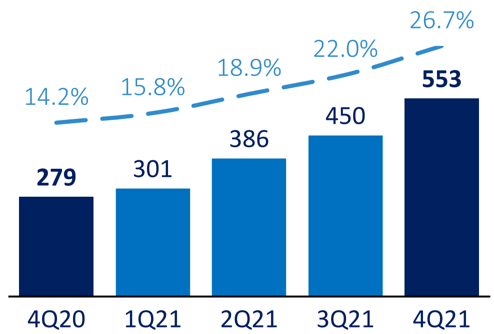
We ended the year with approximately 2.5 million consultations performed at *Clinic Farma*, growth of 196% compared to 2020, leveraged mainly by the application of Covid-19 tests. We also expanded the number of units with *Clinic Farma* from 809, in 2020, to 879 at the end of 2021 - and the portfolio of services from 31 to 57.

We made progress in the digitalization of our Health Hub with the launch of the Services Hub in our e-commerce, with relevant improvements in the customer journey. The portal allows customers to monitor the broad portfolio of services offered at *Clinic Farma* in each region, schedule vaccine applications, rapid tests, pharmaceutical services, request price quotes for specialty drugs and individual formulas, in addition to a marketplace for teleconsultations. All of this is increasingly integrated with the *Sempre Bem* (Always Well) content platform, which provides customers with health and well-being information generated by specialists from a wide selection of medical areas.

Consultations and adherence *Clinic Farma*
(in thousands and % of total customers)



Sales Agreements *(Convênios)* and Partnerships (in BRL million and % of total sales)



In January 2022, we entered into a partnership with Dasa, one of the largest integrated health networks in the country, to offer vaccinations, telemedicine and laboratory test check-ups in our *Clinic Farma*. The partnership is yet another move to position our pharmaceutical clinics as part of the accredited network of important healthcare operators, leveraging traffic and generating more scale for our business. Currently available in stores in the cities of Fortaleza, São Paulo and Recife, the partnership will soon be expanded to four other states.

Sales from sales agreements (*Convênios*) and partnerships signed with healthcare operators and companies reached a new record in 4Q21, reaching 26.7% of total sales. In 2021 alone, more than 200 new contracts were signed, adding 20.5 million lives to our ecosystem. The economics of customers activated through agreements and partnerships are encouraging, with average spending and a degree of loyalty above those of regular customers, justifying the investment in margin with a more promotional strategy.

AME, our specialty drugs channel, continues to develop at a rapid pace. In 2021, this channel grew by 171%, leveraged by a strategy of expanding the portfolio, medical visits and the development of a patient support program (PSP), which has currently served more than 5 thousand clients.

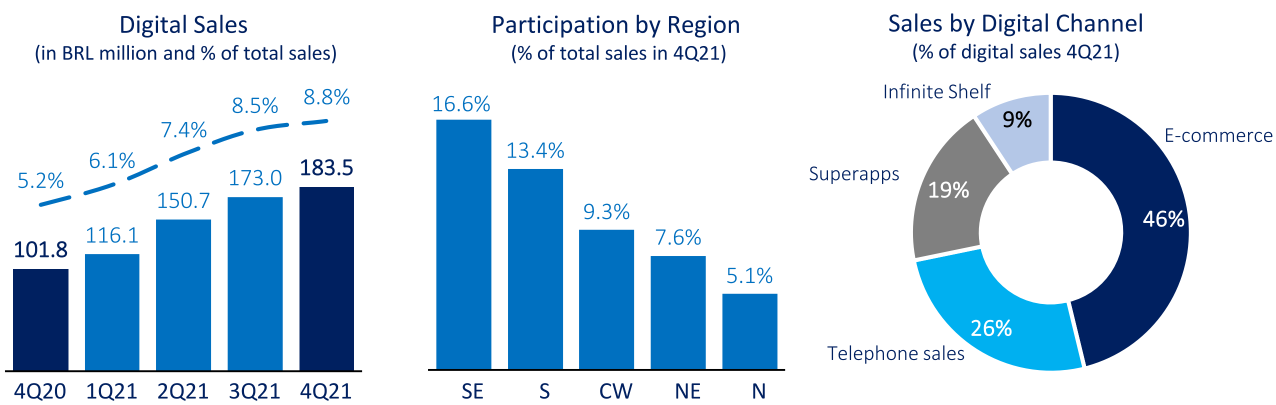
OMNICHANNEL PLATAFORM

The year 2021 was especially important for our digital strategy, and of our omnichannel platform, which is become increasingly customer-centric and enabling a more integrated, fluid and convenient shopping journey.

Sales originated through our digital channels totaled BRL 623.4 million in 2021, registering a growth of 85.3% compared to the previous year, well above the growth of the overall digital pharmaceutical retail market, estimated at 51.3% as measured by IQVIA. The good sales performance was accompanied by an improvement in profitability, quality (conversion rate and organic traffic) and level of customer satisfaction.

In 4Q21, digital channels reached 8.8% of total sales, 3.5p.p. above the same period of the previous year. The highlight in the quarter was the Black Friday campaign promoted on the e-commerce platform, with record sales volume and attraction of new customers, leveraging digital participation to 13.5% of sales on the main day of the event.

On a regional basis, in 4Q21 we observed stronger growth in the share of digital channels in the Southeast, which reached 16.6%, an increase of 4.7p.p. compared to 4Q20. In the breakdown by channel, we observed a balanced division, with growth in all channels, especially the Infinite Shelf, more than quadrupling in relation to 4Q20. Click & Collect sales represented 23% of total sales in the quarter.



Our market share within pharmaceutical retail in digital channels, measured by IQVIA, reached 11.9% in 2021, an increase of 1.4p.p. compared to 2020. The pace of growth above the overall market is related to our greater exposure to regions at a less mature stage of digital development, such as the Northeast and North, and the launch of several new features on our omnichannel platform developed over the last few years, which are gradually gaining traction.

The new *Pague Menos* app with a soft launch in 3Q21, was made available to 100% of the user base throughout 4Q21 and has already shown promise in traffic origination, purchase profile and user evaluation. Since the launch, the app has accumulated more than 500 thousand downloads, and has achieved a good average rating in the app stores, with 4.4 in the Google Play Store and 4.0 in the Apple Store. Still in its infancy, generating only 9% of digital sales, we consider the maturation of the new app to be an important lever in our digital strategy for 2022, as it continues to add more resources.

We continue to strengthen our logistics capacity with important partnerships with last mile operators all over the country. In 4Q21, we expanded the operation with smart lockers to more than 150 points in SP and RJ, in partnership with *CliqueRetire,* leader in the operation of this mode of delivery in Brazil. We also started a non-polluting delivery pilot with a *Tuk Tuk* (rickshaw) vehicle at a store in Fortaleza. In 4Q21, we reached the mark of 92% of deliveries made in less than 24 hours.

TECHNOLOGY AND TRANSFORMATION

We continue to advance in our digital transformation, based on the pillars “Startup Mentality”, “Technology as a Business Accelerator” and “Innovation Acceleration”.

In the "Startup Mentality" pillar, we launched the BackOffice 4.0 Project with a focus on hyperautomation of corporate processes (RPA/BPMS). On the data driven journey, we delivered management cockpits and sales flash with artificial intelligence to assist in decisions to help achieve sales goals. We have expanded the customer's digital journey with numerous advances in channel differentiation, such as the digital services hub, marketplace, new app, subscription (recurrence) and social selling, which allows the creation of personalized stores and the increase in the number of brand ambassadors.

In "Technology as a Business Accelerator", we delivered the first phase of our Channel Integration Platform - significantly expanding the number of APIs available, which translates into savings in development hours and improved time-to-market for delivering solutions.

Under the theme of “Innovation Acceleration”, we launched the *#GaragemDeIdeias* (Idea Garage) program, stimulating intra-entrepreneurship, through the activation of innovation by our more than 20 thousand employees. We launched the *Pague Menos* Alexa *s*kill, our new customer relationship channel, expanding the possibility of scheduling services using voice channels, via digital assistants. On the 5th *FastDating*, our program of approximation with startups, all of the presentations generated interest from our business areas, which will provide more opportunities for partnerships in innovation, efficiency and increased sales.

In 4Q21, we also inaugurated the new headquarters of pmenoslab, our technology and innovation laboratory. With more than 1200 square meters, the space has a capacity of more than 200 workstations, following the concepts of co-working, open space and a relaxed atmosphere.

MARKETING AND CRM

In 2021, we reached record numbers in media impacts, customer engagement, CRM activations and high-value customer retention, demonstrating the success of our marketing and relationship approach, increasingly based on robust data analytics tools.

We ended the year with 15.1 million active customers, a growth of 2.9% compared to the end of 2020, principally due to a lower churn rate , with the volume of “abandoners” falling 47% over the year. The high value customer retention rate, customers representing the top 10% of sales, increased by 12.9% vs. 2020, with an assertive strategy of engagement via communications and personalized offers.

Incremental sales, generated by CRM campaigns and measured by measuring behavior vs. a control group, grew 150% in the year, reaching 2.8% of total sales in 2021. In 4Q21, sales from these actions reached 3.5%, mainly leveraged by Black Friday.

Sempre Bem (Always Well), our content platform, celebrated its 13th anniversary in 2021 with superlative numbers and is increasingly integrated into our Health Hub. The platform, which produces proprietary content on health, beauty and well-being, has reached the milestone of more than a thousand editions of its TV show, broadcast weekly on an open national network since 2008. We have more than 30 thousand hours of informative content from the most diverse areas of health in our collection, promoting quality of life for our audience. In 2021, we also started the production of e-books offering guidance, linked to health or specific pathologies, in a strategy that seeks to increase our relevance in keywords on Google, leveraging our organic traffic and improving conversion in our e-commerce.

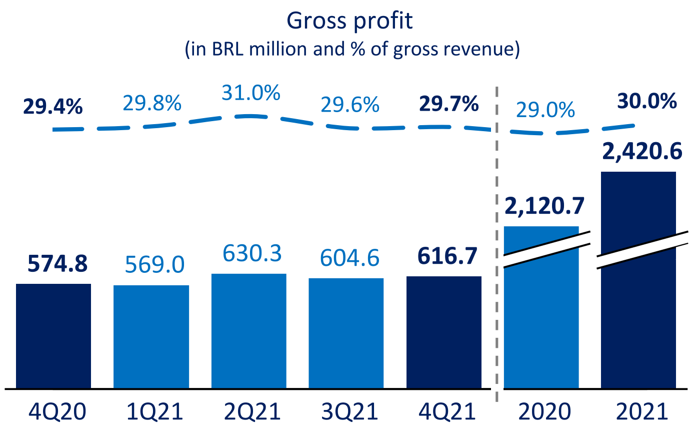
In 2021, we have consolidated our position as the main pharmaceutical retail player on social networks. At the end of the year, we reached more than 500 thousand followers on Instagram and accumulated more than 35 million hits on our YouTube channel.

GROSS PROFIT

In a year characterized by the resumption of organic expansion and inflationary acceleration, resulting in pressure on expenses, levers to increase the gross margin were the main factors responsible for the increase in the Company's profitability.

Annual gross profit totaled BRL 2,420.6 million, growing 14.1% compared to 2020. Gross margin reached 30.0%, expanding 1.0p.p. above the previous year. The main factors responsible for the margin increase were: i) vendor management and pricing; ii) reduction in the loss rate; iii) execution of the pre-increase purchasing; and iv) optimization of the sales mix, with emphasis on generics, private labels and services.

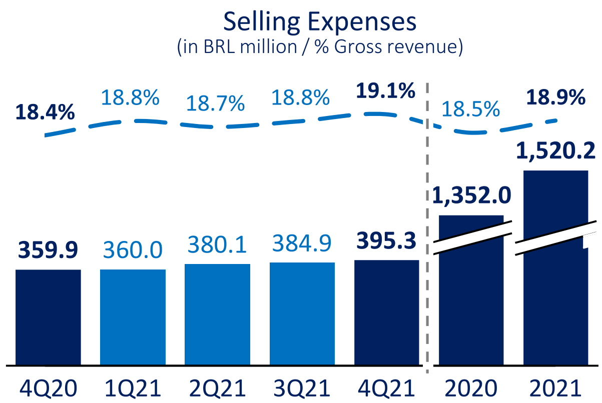
In 4Q21, gross profit reached BRL 616.7 million, with a gross margin of 29.7%, 0.3p.p. above the same period of the previous year. In the quarter, we continued to capture benefits from the projects mentioned above, more than offsetting the more aggressive promotional activity carried out with the growth of agreements (*Convênios*) and partnerships and the increased participation of digital channels.

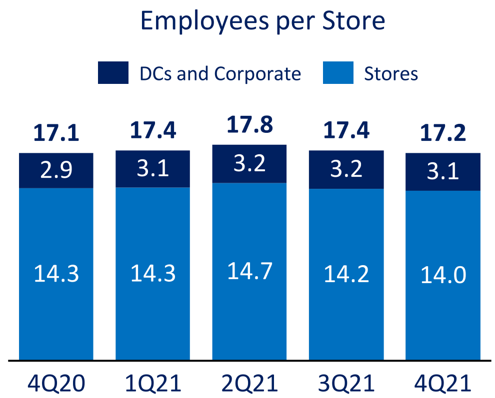


SELLING EXPENSES

In 2021, selling expenses totaled BRL 1,520.2 million, up 12.4% compared to the previous year. The main factors causing growth in expenses above the growth of sales were: i) acceleration in the pace of organic expansion starting in 3Q21; ii) inflationary pressure on rents, maintenance and supplies expenses; and iii) greater investments in marketing, related to promotional campaigns and growth of digital channels.

In 4Q21, selling expenses totaled BRL 395.3 million, up 9.8% over 4Q20. As a percentage of sales, this item grew by 0.3p.p. compared to 3Q21, impacted by the opening of 48 new stores in the period.

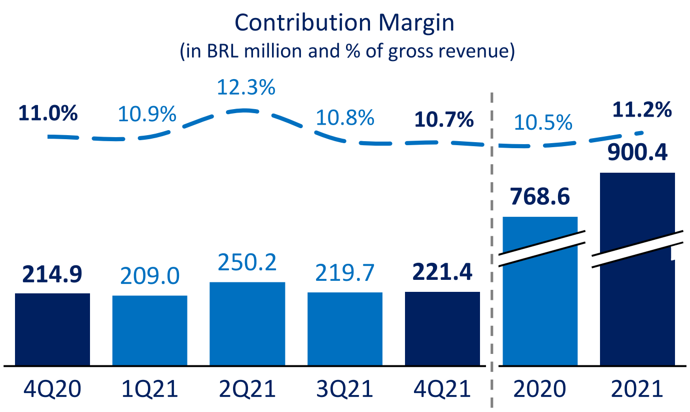




The metric of employees per store, considering only the headcount allocated to store operations, decreased to 14.0 in 4Q21 (vs. 14.2 in 3Q21 and 14.3 in 4Q20). The reduction is related to frame optimizations due to the roll out from the WFM (workforce management) project, implementing customized work schedules according to store demand. This project, still in its initial phase, can continue to contribute to the optimization of the workforce in 2022.

CONTRIBUTION MARGIN

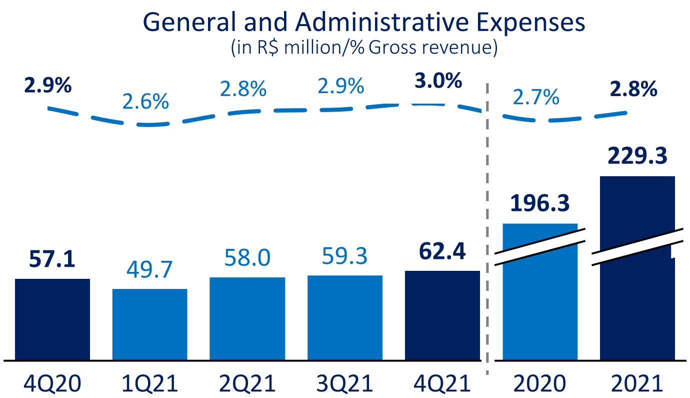
The contribution margin, result of the difference between gross profit and selling expenses, reached 11.2% of gross revenue in 2021, an expansion of 0.7p.p. compared to 2020. In 4Q21, this metric reached 10.7%, decreasing 0.3p.p. when compared to 4Q20, due to the acceleration of organic expansion, with 48 new stores, comparing to zero openings in the comparable quarter. Excluding the negative effect of new stores, which have pre-operating expenses and lower margins in the initial stage of maturation, the contribution margin in 4Q21 was 11.0%, stable compared to 4Q20.



GENERAL AND ADMINISTRATIVE EXPENSES

In 2021, general and administrative expenses (G&A) totaled BRL 229.3 million, a growth of 16.8% over 2020, and represented 2.8% of gross revenue. The increase in this group of expenses reflects the investment in the long-term sustainability of the business, related to strategic initiatives, such as the Call Center (sales), UP Farma (training), the New POS and New App (technology), in addition to strengthening strategic areas such as Expansion and recognition of our team of employees, with increased expenses related to the restricted stock plan, implemented at the IPO.

In 4Q21, G&A expenses totaled BRL 62.4 million, reaching 3.0% of gross revenue, 0.1p.p. above 4Q20.



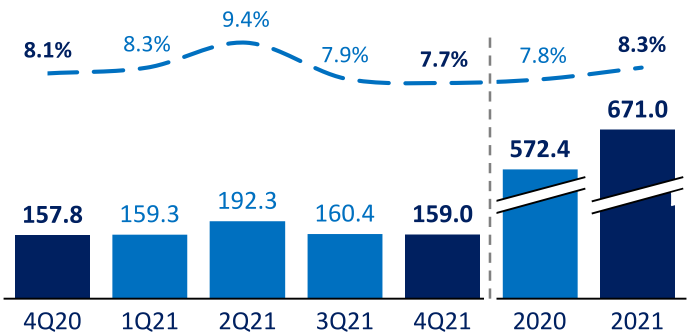
ADJUSTED EBITDA

In 2021, adjusted EBITDA totaled BRL 671.0 million, robust growth of 17.2% when compared to 2020. The adjusted EBITDA margin reached 8.3% of gross revenue, expanding 0.5p.p. above the previous year. Margin expansion reflects our commitment to increasing profitability, balancing the new expansion cycle with the multiple levers for value creation currently being implemented.

In 4Q21, adjusted EBITDA reached BRL 159.0 million, with a margin of 7.7% of gross revenue, a reduction of 0.4p.p. compared to 4Q20. As previously mentioned, the margin reduction in the quarter is mainly related to the 48 new store openings in the quarter, in addition to inflationary pressures.

For 2022, we expect i) more favorable inflationary dynamics, with the annual readjustment of drug prices compensating for inflationary pressures observed in 2021, ii) normalization in the pace of store openings, making the periods effectively comparable and iii) gradual operational leverage, especially in general and administrative expenses, with the maturation of the new cohort of stores and the incorporation of the Extrafarma store portfolio (still pending antitrust approval). We emphasize that due to these factors, 2021's margin offenders can become levers for profitability in 2022.

Adjusted EBITDA
(in BRL million and % of gross revenue)



EBITDA RECONCILIATION AND NON-RECURRING ADJUSTMENTS

In 4Q21, we recorded a total of BRL 7.5 million in non-recurring expenses related to acquisition and planning expenses for the integration of *Imifarma Produtos Farmacêuticos e Cosméticos SA (Extrafarma).*

We present below the EBITDA reconciliation table and non-recurring adjustments in the reported result.

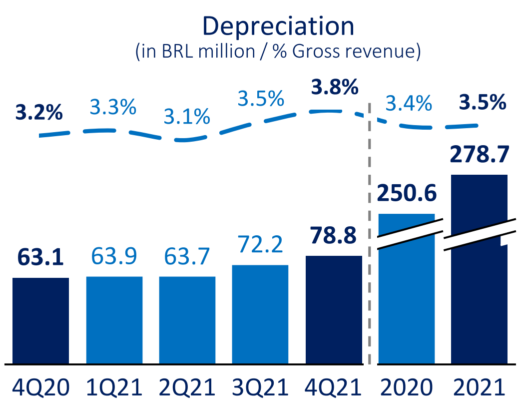
Reconciliation of Adjusted EBITDA (BRL million)	4Q20	1Q21	2Q21	3Q21	4Q21	2020	2021
Accounting Net Income	**37.5**	**44.2**	**69.4**	**29.9**	**21.1**	**96.0**	**164.5**
(+) Net financial result	56.7	46.9	45.3	51.1	57.4	253.2	200.7
(+) Income tax and social contribution	0.5	4.4	11.6	(1.4)	(5.8)	(27.4)	8.9
(+) Depreciation and Amortization	63.1	63.9	63.7	72.2	78.8	250.6	278.7
EBITDA	**157.8**	**159.3**	**190.0**	**151.8**	**151.5**	**572.4**	**652.6**
(+) Expenses with acquisition and planning for the integration of Extrafarma	-	-	2.2	8.7	7.5	-	18.4
Total adjustments	**-**	**-**	**2.2**	**8.7**	**7.5**	**-**	**18.4**
Adjusted EBITDA	**157.8**	**159.3**	**192.3**	**160.4**	**159.0**	**572.4**	**671.0**
Total adjustments (after tax)	-	-	1.5	5.7	4.9	-	12.1
Adjusted Net Income	**-**	**-**	**70.8**	**35.6**	**26.0**	**96.0**	**176.6**

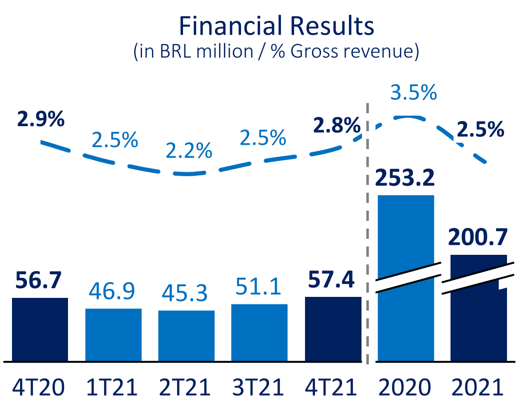
DEPRECIATION, NET FINANCIAL EXPENSES AND INCOME TAX

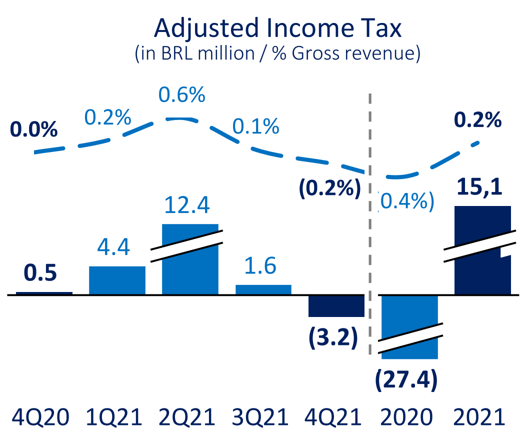
Depreciation totaled BRL 278.7 million in 2021, up 11.2% from the previous year, as a result of organic expansion and updating of lease contracts liabilities. In 4Q21, depreciation totaled BRL 78.8 million, an increase of 24.9% when compared to 4Q20.

In 2021, financial results recorded a net expense of BRL 200.7 million, a reduction of 20.7% in relation to that recorded in 2020. The savings are mainly related to the optimization of the Company's capital structure, reducing financial leverage as well as the average cost of debt service. In 4Q21, net financial expenses totaled BRL 57.4 million, up 1.2% vs. 4Q20, already reflecting the impact of the increase in interest rates, in addition to the funding of BRL 450 million in debentures realized in October/21.

Income tax adjusted for non-recurring effects in 2021 totaled BRL 15.1 million, following the growth of the taxable income basis in the period. In 4Q21, deferred income tax was BRL 3.2 million.



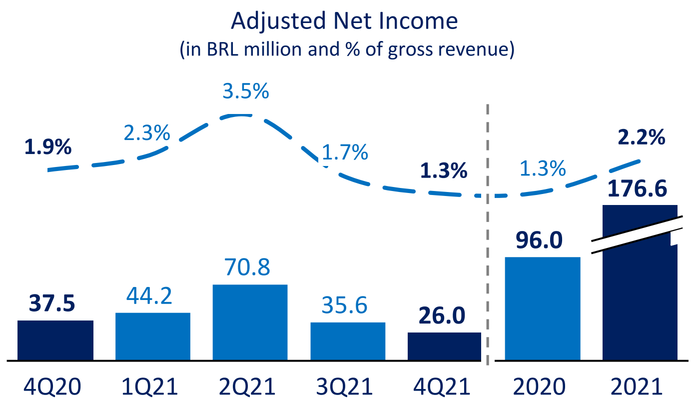




ADJUSTED NET PROFIT

We ended 2021 with adjusted net income of BRL 176.6 million, very robust growth of 83.9% over the previous year. Annual profit growth is the result of a well-balanced equation of sales growth, a new expansion cycle and financial deleveraging.

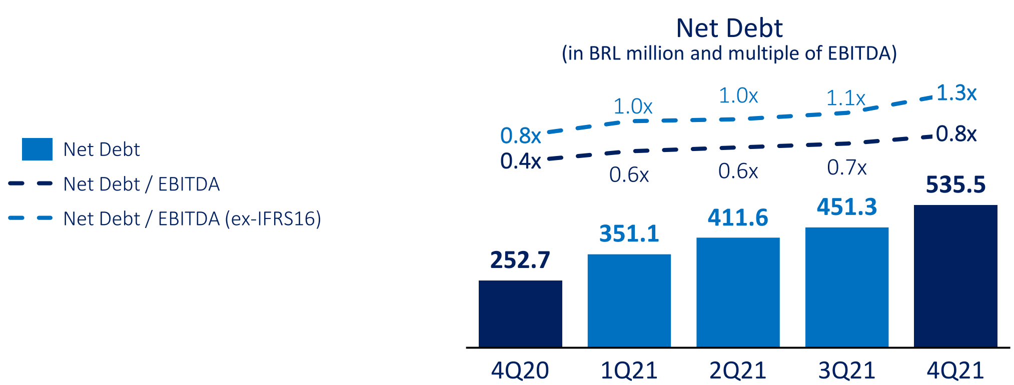
In 4Q21, adjusted net income was R$ 26.0 million, a reduction of 30.8% compared to 4Q20, as a result of the opening of 48 stores in the period, which put pressure on SG&A in the quarter, but which will boost margins in the coming periods as these stores mature.



INDEBTEDNESS

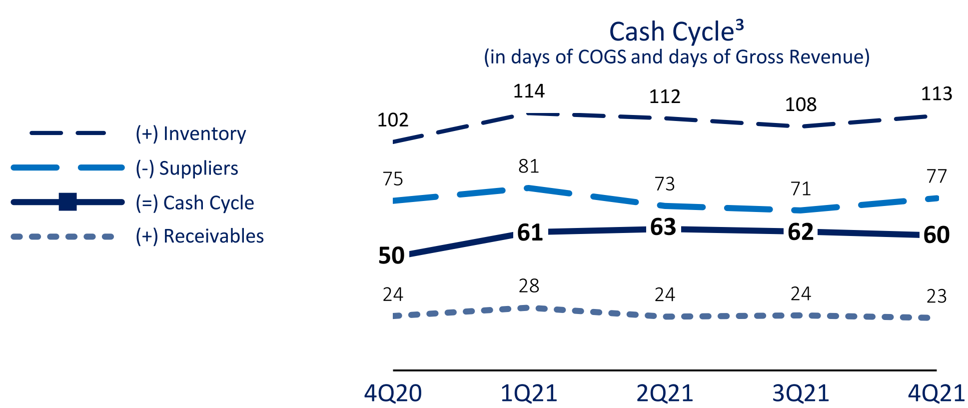
Net debt at the end of 2021 totaled BRL 549.4 million, an increase of BRL 296.6 million compared to the end of 2020. As a multiple of EBITDA ex-IFRS16, net debt ended the year at 1.4x.

The increase in the level of indebtedness observed throughout the year is mainly as a result of the resumption of investments in organic expansion and strategic investments in inventories (assortment and reduction in the levels of stockouts), which are contributing significantly to the company's sales growth.



OPERATING CASH CYCLE

In 4Q21, the cash cycle was 60 days, an increase of 10 days when compared to 4Q20, principally due to higher investment in inventories, resulting from the expansion of the product assortment and reinforcement of coverage for new stores. Compared to 3Q21, the cash cycle was shortened by 2 days.



[3] the calculation of the Average Inventory Period and the Average Supplier Payment Terms does not consider the effects of AVP, commercial agreements and recoverable taxes.

CASH FLOW

In 4Q21, we recorded operating cash flow of BRL 49.2 million, investments in new stores and other investments of BRL 100.9 million and negative free cash flow of BRL 51.7 million.

For the full year of 2021, operating cash flow was BRL 39.9 million, principally impacted by investment in inventories (an increase of 11 days, equivalent to approximately BRL 200 million) and investments in new stores and other investments, which totaled BRL 241.5 million.

In 2022, with the normalization of investments in inventories, the perspective is that the generation of operating cash flow will be sufficient to support investments in new stores and other projects.

Managerial Cash Flow (BRL million)	4Q20	4Q21	2020	2021
EBITDA	**157.8**	**151.5**	**572.4**	**652.6**
(-) Lease payments (IFRS 16)	(60.7)	(78.9)	(245.8)	(270.4)
(Δ) Accounts receivable	(44.9)	26.4	(235.7)	(7.3)
(Δ) Inventories	(118.0)	(98.6)	(237.1)	(250.8)
(Δ) Suppliers	136.4	123.7	136.7	67.3
(Δ) Recoverable taxes	(16.6)	(56.6)	(98.6)	(83.2)
(+/-) Change in other assets and Liabilities /Non-cash effects	(84.1)	(18.2)	(63.6)	(68.2)
(=) Cash flow from operations	**(30.1)**	**49.2**	**(171.7)**	**39.9**
Capital investments	(27.7)	(100.9)	(45.9)	(241.5)
Investment Cash Flow	**(27.7)**	**(100.9)**	**(45.9)**	**(241.5)**
	-	-		
Free cash flow	**(57.7)**	**(51.7)**	**(217.6)**	**(201.6)**
(+) Gross debt funding	100.0	450.0	324.0	610.0
(-) Payment of gross debt	(175.6)	(39.0)	(454.4)	(300.8)
Debt service	(9.6)	(15.7)	(38.0)	(50.8)
Derivative operations	4.0	-	63.6	-
Stock buyback	-	(12.3)	-	(22.7)
(+) Net proceeds from the IPO	103.1	-	817.9	-
Financing Cash Flow	**21.8**	**383.0**	**713.0**	**235.7**
Opening balance of cash, equivalents and financial investments	655.9	322.8	124.5	620.0
Closing balance of cash, equivalents and financial investments	620.0	654.1	620.0	654.1
Change in Cash and Equivalents	**(35.9)**	**331.3**	**495.4**	**34.2**

INVESTMENTS

In 2021, BRL 241.5 million were invested, mainly directed towards organic expansion and renovation of the existing store base. Below is a breakdown of Capex for the period.

Capex (R$ million)	2020	%	2021	%
Expansion	1.7	4%	116.3	48%
Store renovation	19.3	42%	69.1	29%
Technology	15.0	33%	25.4	11%
Infrastructure of stores, DCs and offices	10.0	22%	30.7	13%
Total	**45.9**	**100%**	**241.5**	**100%**

CORPORATE, SOCIAL AND ENVIRONMENTAL RESPONSIBILITY (ESG)

In 2021, the company completed the structuring of the ESG agenda, fully integrating short, medium and long-term commitments into our strategy. We elaborated 32 goals to be reached until 2030, anchored in three pillars: Health for people, Health for the environment and Health for the business. The agenda is a priority topic for the Board of Directors, tying executive bonuses to the achievement of these goals and brings challenges to the company generate more value for all stakeholders.

In 4Q21, we continued to advance in important indicators in our ESG journey. We joined the IGPTW portfolio, as the only pharmaceutical retail chain in the index. The index was created by B3 in partnership with global consultants Great Place to Work (GPTW), focusing on companies that utilize best practices in the employment market.

We strive to value diversity and promote inclusion in the areas of racial equity, gender equity, inclusion of people with disabilities and integration of different generations. Aligned with our strategic agenda, we began a program working to raise the awareness of our employees regarding the themes of diversity and inclusion within the Company through the launch of manifestos, booklets, specific training on inclusive and nonviolent communication, awareness campaigns, structuring of an inclusive selection process, in addition to signing commitments with society and with with several seals, movements and networks such as *ONU Mulheres* (UN Women) and *Engaja Senior* (Senior Engagement). In addition, we have structured 5 Pague Menos Inclusion Programs for 2022. Among them, we highlight our Representativeness Program that has a Diversity and Inclusion Commission and our first Affinity Groups.

We ended the year with 19,988 employees on staff, with 59% female representation, with women reaching 36% of senior management positions, 23.4% of the staff represent the other three fronts of diversity: black people, disabled people and people aged 50 or over. Currently, 7.5% of leadership positions are held by black people.

We also continue to advance in the use of clean energy. In 4Q21, we expanded the use of solar energy to stores in the states of Bahia and Amazonas. At the end of 4Q21, stores in 18 different states, representing more than 75% of all stores. Another 20 solar farms have been contracted and are under construction creating the capacity to expand this energy generation to 100% of stores during the course of 2022, including new stores.

PEOPLE, PRODUCTIVITY AND CULTURE

In 4Q21, we completed the diagnosis of the *Pague Menos* organizational culture, with the objective of preparing us for the challenges of organic and inorganic growth. In doing so, we structured the people management projects for 2022, with priorities focused on i) cultural modeling; ii) leadership development; iii) generation of career opportunities; iv) attracting people; v) internal communication; and vi) recognition and appreciation.

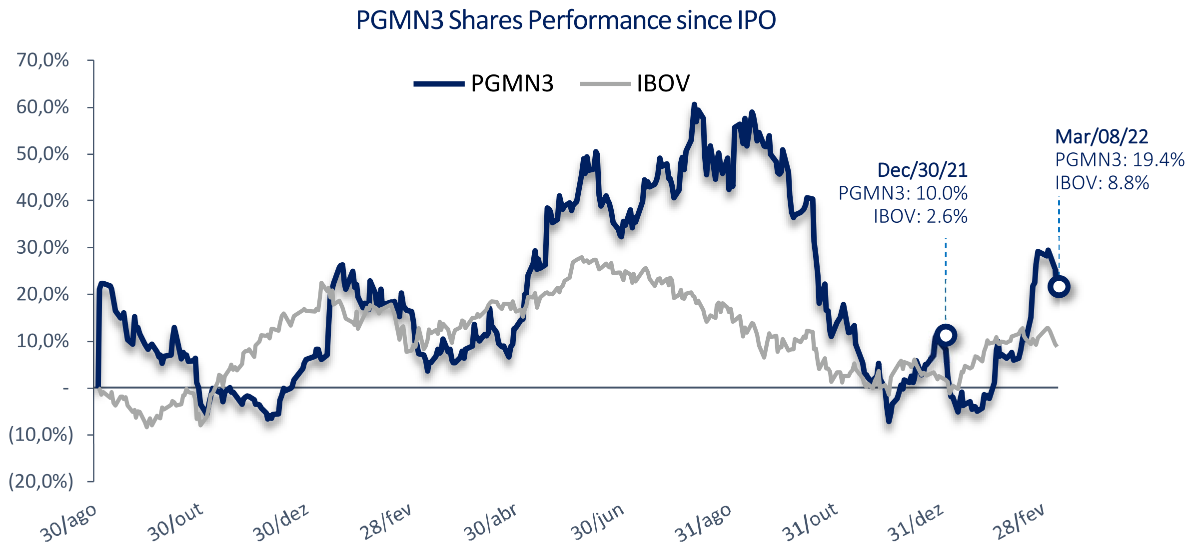
We also ended 2021 with robust performance, career and succession plans for our leaders. 100% of our leaders were evaluated by committees, each with a *PDI* (Individual Development Plan), we have also mapped our key positions and evolutionary profiles. We also implemented the *Pague Menos* ambassador program, focusing on facilitating the process of training, integration, cultural dissemination and improvements in organizational "climate", in an initiative that has identified more than 1,000 employees in the operational structure, who will act as agents of this program.

In the development pillar, we celebrated the first year of our Corporate University, *UP Farma*, with significant results, among them: 301,000 hours of training for our sales team with more than 100,000 certificates issued; completion of the implementation of our 67 School Stores; training of young people in situations of vulnerability to work in the technology area within *Pague Menos* through our DEVs Training Program; important partnerships with recognized educational institutions, offering more opportunity for access to undergraduate and graduate courses; and, finally, the structuring of the Retail Operator Continuing Training Course which will start in 2022, with the potential for a positive impact on society as a whole.

CAPITAL MARKETS

Pague Menos (PGMN3) common shares appreciated by 3.7% in 2021, 15.6p.p. above the Ibovespa index, which fell 11.9% in the same period. Among peers In the Health and Retail sectors, PGMN3 stood out in a particularly challenging year, ranking in the top decile in a group of more than 60 companies[4] listed on the B3.

During 2021, we observed an increase in institutional investors in the shareholder base, from 81.0% of the free float[5] at the end of 2020 to 88.4% at the end of 2021. In addition, we observed a greater diversification of the shareholder base, with the 10 largest institutional investors concentrating 82% of the free float at the end of 2021, compared to 90% at the end of 2020.



4 Considers companies, according to the sector classifications of the B3, of the health sector and subsectors of cyclical and non-cyclical consumption representing pharmaceutical retail, food, clothing, accessories, footwear, electrical appliances, personal use products, computers and equipment, e-commerce and miscellaneous products.

5 Does not consider positions of the Controller, General Atlantic and treasury shares.

PagueMenos
VIVA PLENAMENTE

INCOME STATEMENT FOR THE YEAR

On January 1st, In 2019, rule CPC 6-R2 (IFRS 16) went into effect, which changed the accounting recognition model for lease agreements. To preserve historical comparability, we present below the reconciliation with the previous standard (IAS 17/CPC 06).

Income Statement for the Year (BRL million)	IAS 17			IFRS16		
	4Q20	4Q21	Δ	4Q20	4Q21	Δ
Gross Revenue	**1,955.3**	**2,074.8**	**6.1%**	**1,955.3**	**2,074.8**	**6.1%**
Deductions	(125.9)	(131.1)	4.2%	(125.9)	(131.1)	4.2%
Net Revenue	**1,829.4**	**1,943.6**	**6.2%**	**1,829.4**	**1,943.6**	**6.2%**
Cost of Goods Sold	(1,254.5)	(1,327.0)	5.8%	(1,254.5)	(1,327.0)	5.8%
Gross Profit	**574.8**	**616.7**	**7.3%**	**574.8**	**616.7**	**7.3%**
Gross Margin	*29.4%*	*29.7%*	*0.3p.p.*	*29.4%*	*29.7%*	*0.3p.p.*
Sales Expenses	(420.6)	(474.2)	12.8%	(359.9)	(395.3)	9.8%
Contribution Margin	**154.2**	**142.4**	**(7.7%)**	**214.9**	**221.4**	**3.0%**
Contribution Margin	*7.9%*	*6.9%*	*(1.0p.p.)*	*11.0%*	*10.7%*	*(0.3p.p.)*
General and Administrative Expenses	(57.1)	(62.4)	9.4%	(57.1)	(62.4)	9.4%
Adjusted EBITDA	**97.2**	**80.0**	**(17.6%)**	**157.8**	**159.0**	**0.7%**
Adjusted EBITDA Margin	*5.0%*	*3.9%*	*(1.1p.p.)*	*8.1%*	*7.7%*	*(0.4p.p.)*
Depreciation and amortization	(21.8)	(24.9)	13.9%	(63.1)	(78.8)	24.9%
Financial Result	(28.7)	(22.4)	(21.9%)	(56.7)	(57.4)	1.2%
Income before Taxes on Profit	**46.6**	**32.8**	**(29.8%)**	**38.1**	**22.8**	**(40.2%)**
Income Tax and Social Contribution	(3.5)	(0.2)	(95.2%)	(0.5)	3.2	-
Adjusted Net Profit	**43.2**	**32.6**	**(24.6%)**	**37.5**	**26.0**	**(30.8%)**
Adjusted net margin	*2.2%*	*1.6%*	*(0.6p.p.)*	*1.9%*	*1.3%*	*(0.6p.p.)*

Income Statement for the Year (BRL million)	IAS 17			IFRS16		
	2020	2021	Δ	2020	2021	Δ
Gross Revenue	**7,308.4**	**8,062.9**	**10.3%**	**7,308.4**	**8,062.9**	**10.3%**
Deductions	(450.0)	(534.2)	18.7%	(450.0)	(534.2)	18.7%
Net Revenue	**6,858.5**	**7,528.7**	**9.8%**	**6,858.5**	**7,528.7**	**9.8%**
Cost of Goods Sold	(4,737.8)	(5,108.1)	7.8%	(4,737.8)	(5,108.1)	7.8%
Gross Profit	**2,120.7**	**2,420.6**	**14.1%**	**2,120.7**	**2,420.6**	**14.1%**
Gross Margin	*29.0%*	*30.0%*	*1.0p.p.*	*29.0%*	*30.0%*	*1.0p.p.*
Sales Expenses	(1,597.8)	(1,790.6)	12.1%	(1,352.0)	(1,520.2)	12.4%
Contribution Margin	**522.8**	**629.9**	**20.5%**	**768.6**	**900.4**	**17.1%**
Contribution Margin (%)	*7.2%*	*7.8%*	*0.6p.p.*	*10.5%*	*11.2%*	*0.7p.p.*
General and Administrative Expenses	(196.3)	(229.3)	16.8%	(196.3)	(229.3)	16.8%
Adjusted EBITDA	**326.5**	**400.6**	**22.7%**	**572.4**	**671.0**	**17.2%**
Adjusted EBITDA Margin	*4.5%*	*5.0%*	*0.5 p.p.*	*7.8%*	*8.3%*	*0.5 p.p.*
Depreciation and amortization	(87.5)	(92.8)	6.1%	(250.6)	(278.7)	11.2%
Financial Result	(138.0)	(80.4)	(41.7%)	(253.2)	(200.7)	(20.7%)
Income Before Taxes on Profit	**101.0**	**227.4**	**125.0%**	**68.6**	**191.7**	**179.5%**
Income Tax and Social Contribution	16.4	(27.2)	-	27.4	(15.1)	-
Adjusted Net Profit	**117.4**	**200.1**	**70.4%**	**96.0**	**176.6**	**83.9%**
Adjusted net margin	*1.6%*	*2.5%*	*0.9p.p.*	*1.3%*	*2.2%*	*0.9p.p.*

FINANCIAL STATEMENT

Balance Sheet (R$ millions)	IFRS16		
	31/12/20	31/12/21	Δ
Total Assets	**5,753.8**	**6,573.3**	**14.2%**
Current Assets	**3,147.4**	**3,512.5**	**11.6%**
Cash and Cash Equivalents	589.1	654.1	11.0%
Financial Investments	30.9	-	-
Clients Accounts Receivable	522.9	530.3	1.4%
Inventory	1,702.1	1,957.0	15.0%
Taxes to Recover	198.3	232.4	17.2%
Other Current Assets	104.1	138.7	33.3%
Non-Current Assets	**2,606.4**	**3,060.8**	**17.4%**
Long-Term Realizable Assets	611.5	648.7	6.1%
Investiments	70.8	72.6	2.5%
Fixed Assets	541.3	665.6	23.0%
Rights of use under lease	1,344.9	1,615.6	20.1%
Intangible Assets	37.9	58.2	53.7%
Total Liabilities	**5,753.8**	**6,573.3**	**14.2%**
Current Liabilities	1,889.1	2,191.4	16.0%
Social and Labor Obligations	89.2	103.4	15.9%
Suppliers	1,244.5	1,306.5	5.0%
Tax Obligations	106.4	94.1	(11.6%)
Loans and Financing	241.6	435.7	80.3%
Other Obligations	35.1	29.6	(15.7%)
Leasing	172.3	222.1	28.9%
Long Term Liabilities	**1,923.8**	**2,291.6**	**19.1%**
Loans and Financing	636.8	753.9	18.4%
Other Obligations	8.2	7.2	(12.6%)
Leasing	1,251.5	1,508.0	20.5%
Provisions	27.2	22.6	(17.2%)
Shareholder's Equity	**1,940.9**	**2,090.2**	**7.7%**
Realized Share Capital	1,200.7	1,199.2	(0.1%)
Capital Reserves	383.4	369.7	(3.6%)
Profit Reserves	356.8	521.3	46.1%

ANNEX: DISTRIBUTION OF STORES BY STATE

State / Region (# of Stores)	4Q20	Openings	Closings	4Q21
Total	**1,105**	**80**	**20**	**1,165**
Northeast	**664**	**57**	**1**	**720**
Alagoas	30	1	-	31
Bahia	113	18	1	130
Ceará	180	4	-	184
Maranhão	60	9	-	69
Paraíba	51	4	-	55
Pernambuco	117	9	-	126
Piauí	35	3	-	38
Rio Grande do Norte	43	7	-	50
Sergipe	35	2	-	37
North	**111**	**6**	**2**	**115**
Acre	12	1	-	13
Amapá	6	1	-	7
Amazonas	22	-	-	22
Pará	35	2	2	35
Rondônia	13	-	-	13
Roraima	9	2	-	11
Tocantins	14	-	-	14
Southeast	**194**	**10**	**11**	**193**
Espírito Santo	26	-	1	25
Minas Gerais	64	1	6	59
Rio De Janeiro	19	2	1	20
São Paulo	85	7	3	89
Center West	**94**	**7**	**5**	**96**
Federal District	18	-	2	16
Goiás	30	1	3	28
Mato Grosso	23	5	-	28
Mato Grosso do Sul	23	1	-	24
South	**42**	**-**	**1**	**41**
Paraná	15	-	-	15
Rio Grande Do Sul	7	-	-	7
Santa Catarina	20	-	1	19

GLOSSARY

- Abrafarma : association of the 26 largest pharmacy chains in the country.
- AME (Special Medicines Service): line of special medicines sold by Pague Menos. They are produced with high technology and used in complex and expensive treatments, usually in the fertility, oncology and hormones verticals.
- B2B2C : Business model where a service or product is offered to another company, and later to an end customer.
- Expanded Middle Class: public from social classes B2/C/D, with an average monthly family income of less than BRL 5.7 thousand.
- EBITDA : operating income before interest, taxes, depreciation and amortization.
- HNB (Hygiene, Nutrition and Beauty) : classification of non-drug products belonging to the categories of personal hygiene, nutrition and beauty.
- Mature stores : stores open for more than three years. These are stores that have already gone through the maturation period and therefore tend to have a less accentuated sales growth curve than those in maturation.
- Market Share : Estimated participation in the Brazilian pharmaceutical retail market, based on data from IQVIA, a global data intelligence company applied to the healthcare industry.
- NPS (*Net Promoter Score*) : metric of customer satisfaction and loyalty with the Company.
- *Omnichannel* : the concept illustrates the approach of integrating different retail channels, such as physical stores, e-commerce, telephone sales and social media, allowing the customer to have multiple purchase journeys.
- OTC (*Over-The-Counter*) : classification of products sold via self-service, which includes over-the-counter medicines and convenience, health and wellness items.
- PBM : drug benefit program. These are discount programs created and administered by the pharmaceutical industries (laboratories) in order to facilitate, encourage and promote adherence to treatments for patients and physicians.
- PME : Average storage period. It refers to the average period that a good remains in stock before being sold, being calculated by the quotient between the balance of inventories and the COGS for the quarter, multiplied by 90 days.
- PMP : Average payment period. Refers to the average supplier payment term, calculated by the ratio between the balance of suppliers and the COGS for the quarter, multiplied by 90 days.
- PMR : Average term of receivables. Refers to the average customer payment term, calculated as the ratio between the balance of accounts receivable and gross revenue for the quarter, multiplied by 90 days.
- Pre-increase : period prior to the annual medication readjustment, which occurs in the month of April according to current legislation.
- Stock Out : metric used to measure the lack of products in store.
- SKU : acronym for *Stock Keeping Unit* (Stock Keeping Unit), which refers to the identifier code assigned to items in stock.
- SSS (*Same Store Sales*) : sales growth in the “same stores” concept. Refers to the ratio of sales of goods and services carried out by stores open for more than twelve months in the current period compared to same-store sales in the same period of the previous year.

DISCLAIMER

This document may contain certain forward-looking statements and information related to the Company reflecting current views and/or expectations of the Company and its Management concerning its performance, businesses and future events. Forward-looking statements include, without limitation, any statement containing forecast, indication or estimates and projections regarding future results, performance or objectives, as well as words like we "believe", "anticipate", "expect", "estimate", "project", and other similar expressions. Although the Company and its management believe that such forward-looking estimates and statements are based on reasonable assumptions, they are subject to risks, uncertainties and future events and are issued in the light of information that is currently available. Any forward-looking statements refer only to the date on which they were issued, and the Company is not responsible for updating or revising them publicly after the distribution of this document due to new information, future events or other factors. Investors should be aware that several important factors cause actual results to differ materially from such plans, objectives, expectations, projections and intentions as expressed in this document.

In view of the aforementioned risks and uncertainties, the prospective circumstances and events discussed in this document may not occur, and the Company's future results may differ significantly from those expressed or suggested in these forward-looking statements. Forward-looking statements involve risks and uncertainties and are not guarantees of future events. Therefore, investors should not make any investment decision based on the forward-looking statements that may be contained herein.

Market and certain competitive position information, including market projections mentioned herein were obtained from in-house surveys, market research, public information and business publications. Though we have no reason to believe that any of these reports or of this Information is imprecise in any relevant aspect, we have not independantly verified the competetive position, market position, growth rate or any other data supplied by third parties or other industry publications. The Company is not responsible for the accuracy of such information.

Certain percentages and other amounts included in this document have been rounded up to facilitate their presentation. The scales of the graphs of the results can appear in different proportions, to optimize the demonstration. Accordingly, the numbers and graphs presented may not represent the arithmetic sum and the appropriate scale of the numbers that precede them and may differ from those presented in the financial statements.

The financial information was prepared in accordance with International Financial Reporting Standards (IFRS), in accordance with accounting practices adopted in Brazil (BR GAAP) and were reviewed by independent auditors in

accordance with Brazilian and international auditing standards.

INDEPENDENT AUDITORS

The Company informs that its independent auditors, Ernst & Young Auditores Independentes SS, did not provide services unrelated to the audit in the period ending December 31, 2021.

EARNINGS VIDEO CONFERENCE

Video conference In Portuguese

10.Mar.
15:00 (BRT) | 01:00 pm (US ET)

Access in Portuguese

NUMBER FOR CONNECTION
+55 (11) 3181-8565
+55 (11) 4090-1621
Code: Pague Menos

Video conference in English

(simultaneous translation)
10.Mar. 15:00 (BRT) | 01:00pm (US ET)

Access in English

NUMBER FOR CONNECTION
+1 844 204-8942
+1 412 717-9627
Code: Pague Menos

PagueMenos 40 anos

Empreendimentos Pague Menos S.A.

Balance Sheet
December 31
(In thousand Reais)

Assets	Note	2021	2020
Current			
Cash and cash equivalent	4	654,121	589,086
Marketable securities		-	30,880
Trade receivable	5	530,268	522,940
Inventories	6	1,956,957	1,702,095
Commercial agreements		100,970	66,346
Recoverable taxes	7	232,407	198,318
Derivatives		-	5,788
Prepaid expenses		5,965	8,202
Other		31,812	23,735
Total current asset		3,512,500	3,147,390
Non-current			
Financial investments		8,639	9,517
Recoverable taxes	7	414,418	370,810
Deferred taxes	8	204,018	192,555
Derivatives		-	-
Legal deposits		21,617	38,645
Investments	10	72,596	70,797
Right of use	15	1,615,645	1,344,910
Property, plant, and equipment	11	665,611	541,289
Intangible	12	58,210	37,865
Total non-current asset		3,060,754	2,606,388
Total asset		6,573,254	5,753,778

Empreendimentos Pague Menos S.A.

Balance sheet
December 31
(In thousand Reais)

	Note	2021	2020
Current			
Trade payable	13	1,306,492	1,244,490
Loans, finance and debentures	14	435,702	241,629
Leases liabilities	15	222,147	172,280
Taxes and contribuition payables	16	94,095	106,399
Salaries and social charges		103,425	89,234
Other accounts payable		29,571	35,067
Total current liability		2,191,432	1,889,099
Non-current			
Loans, finance and debentures	14	753,909	636,847
Leases liabilities	15	1,507,974	1,251,454
Taxes and contribuition payables	16	7,177	8,214
Contingency provisions	17	22,565	27,241
Total non-current liability		2,291,625	1,923,756
Total liability		4,483,057	3,812,855
Shareholders' equity	18		
Capital stock		1,199,219	1,200,666
Capital reserves		369,696	383,432
Profit reserves		521,282	356,825
Total shareholders' equity		2,090,197	1,940,923
Total liability and shareholders' equity		6,573,254	5,753,778

Empreendimentos Pague Menos S.A.

Income statement

December 31

(In thousand Reais, except for the result per share)

	Note	2021	2020
Net revenue	22	7,528,710	6,858,492
Cost of sales	23	(5,108,147)	(4,737,825)
Gross profit		**2,420,563**	**2,120,667**
(Expenses) operating revenues			
Sales expenses	23	(1,777,245)	(1,583,398)
General and administrative expenses	23	(271,820)	(219,605)
Equity in the results of investees		2,231	1,312
Other operating revenues		1,367	4,276
Other operating expenses		(1,107)	(1,470)
Result before net financial revenues (expenses) and taxes		**373,989**	**321,782**
Financial revenues	24	79,561	204,976
Financial expenses	24	(280,221)	(458,159)
Financial, net expenses		**(200,660)**	**(253,183)**
Result before taxes		**173,329**	**68,599**
Income tax current		(20,335)	-
Income tax deferred	8	11,463	27,434
Net income		**164,457**	**96,033**
Share result			
Basic and diluted share result (in R$)		0.37	0.22

Empreendimentos Pague Menos S.A.

Comprehensive income statement

December 31

(In thousand Reais)

	2021	2020
Net income	164,457	96,033
Other comprehensive income	-	-
Comprehensive income of the year	164,457	96,033

Empreendimentos Pague Menos S.A.

Cash flow statements

December 31

(In thousand Reais)

	2021	2020
Cash flows from operating activities		
Net profit (loss) from the fiscal year	164,457	96,033
Cash Generated from Operations		
Depreciation and amortization	278,654	250,590
Assets and liabilities present value adjustment	(3,934)	4,955
Interests on loans, financing, and debentures	56,373	45,087
Derivative financial instruments fair value changes	5,737	(54,859)
Exchange variation on loans and financing	908	60,220
Interests on lease with purchase option	120,238	115,138
Establishement (reversal) of contingency provisions	2,212	7,416
Equity accounting	(2,231)	(1,312)
Current taxes	20,335	-
Deferred taxes	(11,463)	(27,434)
Appropriation of transaction costs in debts issuance	(4,531)	(37)
Other adjustments to profit	(3,509)	159
Provision for closure of shops	(1,107)	(5,777)
Residual value on write-down of fixed and intangible assets	5,104	6,387
Provision for bad and doubtful debts	5,745	6,365
Provision for losses in inventories	(5,184)	1,100
	627,804	504,031
Operating assets and liabilities variations		
Third party fundraising	(3,974)	(1,535)
Accounts receivable	(7,337)	(235,658)
Inventories	(250,754)	(237,090)
Recoverable taxes	(83,225)	(98,558)
Other credits	(25,688)	(3,703)
Prepaid expenses	2,237	(3,818)
Suppliers	67,251	136,696
Taxes and contributions recoverable	(33,676)	17,248
Salaries and vacation payable	23,175	(24,180)
Other accounts payable	(8,410)	14,971
	(320,401)	(435,627)
Others		
Payment of loans - Interests	(36,085)	(9,632)
Payment of debentures - Interests	(14,678)	(28,415)
Payment of leases - Interests	(120,238)	(115,138)
	(171,001)	(153,185)
Net Cash Operating Activities	136,402	(84,781)
Cash flows from investment activities		
Acquisition in other investments	31,758	(30,128)
Acquisition of property, plant, and equipment	(211,874)	(35,055)
Acquisition of intangible	(29,615)	(10,881)
Net cash generated in investment activities	(209,731)	(76,064)
Cash flows from financing activities		
Loans and Financing	160,000	324,000
Payment of loans and financing	(267,603)	(454,432)
Payment of lease with purchase option	(146,668)	(123,002)
Dividends and interests over own capital paid	-	-
Issuance of debentures	450,000	-
Payment of debentures	(33,198)	-
Derivative operations settlement	-	63,581
Capital increase	-	858,962
Dividends and interests over own capital received	-	805
Costs in stocks issuance	(1,447)	(41,023)
Stocks buyback	(22,720)	-
Net cash (used in) from financing activities	138,364	628,891
Increase (Decrease) of Cash and Equivalents	65,035	468,046
Decrease of cash and cash equivalent statements		
At the beginning of the fiscal year	589,086	121,040
At the end of the fiscal year	654,121	589,086
Decrease of Cash and Equivalents	65,035	468,046

Empreendimentos Pague Menos S.A.

Shareholders' equity changes statements

December 31

(In thousand Reais)

	Paid capital stock	Capital reserve options granted and stocks in Treasury	Profit reserves	Accrued Profits and Losses	Total shareholders' equity
Balances on January 1, 2020	382,727	381,001	260,792	-	**1,024,520**
Capital transactions with the partners	858,962	-	-	-	**858,962**
Capital increase	858,962	-	-	-	**858,962**
Total Comprehensive Income	-	-	-	96,033	**96,033**
Net Profit in the Period	-	-	-	96,033	**96,033**
Internal Changes of the shareholders' equity	(41,023)	2,431	96,033	(96,033)	**(38,592)**
Recognized options granted	-	(5,411)	-	-	**(5,411)**
Tax Incentive Reserve	-	-	96,033	(96,033)	-
Costs in stocks issuance	(41,023)	-	-	-	**(41,023)**
Restricted stocks plan	-	7,842	-	-	**7,842**
Balances on December 31, 2020	**1,200,666**	**383,432**	**356,825**	**-**	**1,940,923**
Balances on January 1, 2021	1,200,666	383,432	356,825	-	**1,940,923**
Capital transactions with the partners	-	(20,040)	-	-	**(20,040)**
Stocks in treasury	-	(20,040)	-	-	**(20,040)**
Total Comprehensive Income	-	-	-	164,457	**164,457**
Net Profit in the Period	-	-	-	164,457	**164,457**
Internal Changes of the shareholders' equity	(1,447)	6,304	164,457	(164,457)	**4,857**
Tax Incentive Reserve	-	-	164,457	(164,457)	-
Costs in stocks issuance	(1,447)	-	-	-	**(1,447)**
Restricted stocks plan	-	6,304	-	-	**6,304.0**
Balances on December 31, 2021	**1,199,219**	**369,696**	**521,282**	**-**	**2,090,197**

Empreendimentos Pague Menos S.A.

Value added statement

December 31

(In thousand Reais)

	2021	2020
Revenues		
Sales of merchandises, products and services	7,968,063	7,234,081
Other revenues	13,736	4,276
	7,981,799	7,238,357
Inputs acquired from third parties (includes ICMS and IPI)		
Costs of sold merchandises, products and services	(4,734,672)	(4,359,590)
Third parties' materials, energy, services and others	(815,046)	(684,165)
	(5,549,718)	(5,043,755)
Gross added value	2,432,081	2,194,602
Depreciation and amortization	(278,657)	(250,590)
Net added value generated by Company	2,153,424	1,944,012
Added value received from transfer		
Equity pick-up	2,231	1,312
Financial income	68,522	39,102
Total added value to distribute	2,224,177	1,984,426
Added value distribution		
Personnel	917,165	839,685
Direct compensation	778,116	709,388
Benefits	82,944	79,404
FGTS	56,105	50,893
Taxes, Rates and Contributions	924,989	837,830
Federal	139,313	102,851
State	770,267	724,363
Municipal	15,409	10,616
Compensation of third parties capital	217,566	210,878
Interests	180,170	181,710
Rentals	37,396	29,168
Compensation of own capital	164,457	96,033
Interest on equity		
Profit (loss) of the year	164,457	96,033
Distributed added value	2,224,177	1,984,426

1. COMPANY INFORMATION

Empreendimentos Pague Menos SA (“the Company”) is a publicly-held corporation, registered on B3 SA - Brasil, Bolsa, Balcão - in the Novo Mercado segment, with company offices in the capital of Ceará, its ticker symbol is: PGMN3.

The Company's main commercial retail activity is the sale of medications, cosmetics, personal care and beauty products, sold through 1,165 stores (1,105 on December 31, 2020), located in every state in Brazil. The stores are supplied from five distribution centers located in the states of Ceará, Pernambuco, Bahia, Goiás and Minas Gerais.

Extrafarma Transaction

On May 18, 2021, through a Material Fact, the Company disclosed to the market that it entered into a contract of purchase and sale of shares for the acquisition of up to 100% of the share capital of Imifarma Produtos Farmacêuticos and Cosméticos S.A., controller of the operations of "Extrafarma". This operation is still awaiting the authorization of the CADE, in addition to other conditions precedent to awaiting completion. Thus, there is no accounting impact to be considered in the financial statements as of December 31, 2021.

2. PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

The financial statements have been prepared and are being presented in accordance with accounting practices adopted in Brazil, which comprise the rules of the Comissão de Valores Mobiliários (CVM) - the Brazilian equivalent Securities and Exchange Commission - and the technical statements from the Brazilian Accounting Standards - by the Federal Accounting Council (CFC) and based on international accounting standards (International Financial Reporting Standards - IFRS) issued by the International Accounting Standards Board - IASB.

The financial statements were prepared based on historical cost, except for derivative financial instruments and certain financial liabilities, which are reported fair value. These financial statements are presented in thousands of reais, which is the Company's working and reporting currency.

Management has assessed the Company's ability to continue operating normally and is convinced that it has the resources to continue its business in the future. In addition, the Company´s Management is not aware of any material uncertainties that could generate significant doubts about its ability to continue operating. Therefore, these financial statements were prepared based on the assumption of continuity.

In addition, the Company considered the guidance issued by Technical Guidance OCPC 07, issued by CPC in November 2014, while preparing the financial statements. Thus, the relevant information that is specific to the financial statements is supported by evidence and represents that which was used by Management while performing its duties.

The financial statements include accounting estimates as well as the Management´s judgements towards the process of applying accounting policies related to expected credit losses, expected losses in inventories, valuation of financial instruments, realization of deferred tax assets, depreciation and amortization terms for fixed and intangible assets, estimate of the recoverable value of intangibles with an indefinite useful life, determination of the incremental rate of leases, provisions required for legal claims, measurement of financial liabilities at fair value, acknowledging results from commercial agreements and similar factors. Significant estimates and judgments are disclosed in Note 3.

The presentation of the Statement of Added Value (DVA), although not required by IFRS, is mandatory for publicly-held companies in Brazil. As a consequence, this statement is presented as additional information, notwithstanding the other financial statements.

The issuance of these financial statements was authorized by the Company's Board of Directors on March 07, 2022.

During the preparation of the financial statements, the following effects caused by the pandemic of COVID -19 were considered:

Analysis of the effects of COVID-19

On January 30, 2020, the World Health Organization (WHO) announced that the “novel corona virus” (COVID-19) was a global health emergency. The outbreak triggered significant decisions by governments and private sector entities, which in addition to the potential impact of the outbreak, increased the degree of uncertainty about the amounts presented in their financial statements.

On March 10, 2020, the Brazilian Securities and Exchange Commission - CVM issued a notice CVM / SNC / SEP No. 02/20, advising publicly-held companies to carefully assess the impacts of COVID-19 on their businesses and report in their financial statements and quarterly reports, any information on the main risks and uncertainties arising from this analysis, observing applicable accounting standards.

Accordingly, Management paid special attention to those economic events that are related to business continuity and / or to the accounting estimates established, such as: recoverability of financial and non-financial assets, taxes on profit, measurement of assets and liabilities related to leases, measurement of fair value, provisions and contingent liabilities, revenue and liquidity recognition and fulfillment of financial commitments.

The Company highlights that until the present moment, the following situations have not occurred systematically:

i) Interruption in the supply chain, except for the shortage of products with a demand at that momentarily exceeds the production capacity of suppliers;
ii) Significant reduction in revenue, due to the drop in customer demand in the domestic market;
iii) Financial default by the Company or its debtors;
iv) Credit downgrades, which could adversely affect the Company's ability to access adequate financing.

Following are the detailed assessments and conclusions about the impacts of the pandemic regarding the Company's principal transactions.

<u>Recoverability of financial assets</u>

As disclosed in Note 25 - Financial instruments, the Company is subject to credit risk for its cash balance and cash equivalents, short-term investments, accounts receivable from credit card companies and derivative financial instruments.

<u>Financial investments, bank deposits and derivative financial instruments.</u>

The Company has receivable balances from financial institutions, referring to cash and cash equivalents, financial investments and active derivative instruments, totalling BRL 662,760 on December 31, 2021. Such assets are held in solid financial institutions and although in the current scenario there is a possibility of an increase in customer default, there are no indications of a significant increase in the credit risk of these counterparts. In addition, it is worth mentioning that the Central Bank has implemented several measures to increase the liquidity of financial institutions, and losses caused by the pandemic are not expected in this scenario.

<u>Accounts receivable from customers (expected credit losses)</u>

The credit risk of accounts receivable balances is mitigated by the fact that 32% of the Company's sales are realized in cash and 68% using credit and debit cards. Operations are highly pulverized. These operations are concentrated in large credit card operators, normally linked to solid financial institutions. Among the total amount receivable from credit card companies, 94% of the balance corresponds to Getnet operators, whose shareholders are Banco Santander, and Cielo (whose shareholders are Banco do Brasil and Bradesco), thus, the Company considers the risk of default to be extremely low for credit card companies and that the effects of the pandemic on such counterparts are not significant, thus no additional losses are expected.

<u>Recoverability of financial assets</u>

<u>Inventory</u>

Considering that the Company´s primary activity is the sale of medications and personal hygiene products, among other health products, the Company's operations were considered essential by the public authorities, with normal store operations being authorized.

In the course of 2021, 26 stores located in commercial complexes and shopping centers were restricted and temporarily closed, representing only 2.2% of the total, however no Company stores are currently closed.

Along with the stores, distribution centers and transport companies were allowed to operate normally, adopting measures to contain the spread of the virus. Purchase orders with suppliers were not compromised and continued to be delivered normally, with no interruptions in the supply chain. After the emergence of the first cases and confirmation of the first deaths due to COVID-19, the demand for health-related products, as well as personal hygiene, showed significant growth, reaching volumes higher than those observed prior to the pandemic. Accordingly, the Company verified that the risks of carrying inventories for values less than their net realizable value are already included within the current estimates of losses and additional losses are not expected due to the pandemic.

Fixed and intangible assets

As previously mentioned, the Company's operations did not suffer a general interruption and all stores are operating normally at this time. The Company individually monitors the future cash flow generation capacity of each store, in order to identify in a timely manner cases in which the discounted cash flows at present value are lower than the investments made. Management reviewed the main estimates used while calculating the recoverability of assets (inflation, growth rate, capex, discount rate, among others), but no need to set up additional provisions, in addition to those already recognized in the financial statements, was identified.

Deferred taxes on profits

On December 31, 2021, the Company reviewed the main estimates used in the forecasts and analyses regarding the recoverability of deferred taxes on profit, considering the possible impacts of COVID-19 on the business, and no need to reduce the balances recognized in these financial statements was identified.

Measurement of right-of-use assets and lease liabilities

As mentioned, there were no generalized store closures and, as of December 31, 2021, there are no stores closed due to restrictions caused by the Covid-19 pandemic. Considering the reduced number of contracts under negotiation and the low probability of the termination of such contracts, no significant effects were observed on lease liabilities due to the COVID-19 pandemic.

Fair value Measurements

The Company has derivative swap contracts to hedge against the foreign exchange risk of debts in foreign currency. These operations are calculated at fair value by the results. Considering the nature of these operations, and that the counterparties (financial institutions) should not suffer significant impacts on their operations, compromising the credit risk of these institutions, we consider that COVID-19 does not impact the fair value measurement of our operations.

Provisions and contingent liabilities

The Company assessed the nature of provisions and contingent liabilities and found that COVID-19 had no impact on the accounting measurement of such transactions.

Revenue recognition

Management assessed the Company's revenue recognition criteria, as well as the existence of any changes in the return policies or other performance obligations towards customers and found that no changes occurred in the Company's revenue recognition practices.

Liquidity and fulfillment of financial commitments

The Company continues to fulfill all financial and non-financial indicators, defined in its loan agreements, in fact seeing an improvement in these indicators. On November 05, 2021, the Company's debt rating was reevaluated by Fitch Ratings and was upgraded to 'A+ (bra)', with a Positive Outlook. The Company is committed to austerity and cash preservation measures, in order to guarantee its operational continuity. There were no employee dismissals beyond those occurring in the normal course of business.

3. MAIN ACCOUNTING POLICIES

The Company consistently applied the accounting policies described below in these financial statements.

a) Cash and cash equivalents

The balances of cash and cash equivalents are maintained for the purpose of meeting short-term cash commitments. The Company considers cash equivalents to be a financial investment that can be immediately converted into cash and are subject to an insignificant risk in value changes. Therefore, normally, an investment is qualified as a cash equivalent when it has a short maturity, e.g., three months or less from the date when it was made.

b) Financial instruments - Initial recognition and subsequent measurement

A financial instrument is a contract that creates a financial asset for one entity and a financial liability or equity instrument for another entity.

Financial assets

Initial recognition and measurement

Financial assets are classified, upon initial recognition, and subsequently evaluated measured according to the amortized cost, at fair value through other comprehensive results and at fair value by profit or loss.

The classification of financial assets at the initial recognition depends on the characteristics of the contractual cash flows for the financial assets and the Group's business model to manage these financial assets. Except for cases when the accounts receivable from clients do not contain a significant financing component or to which the Company has applied the practical expedient, the Company initially values a financial asset at its fair value plus transaction costs, in cases when an asset is not measured at fair value by profit or loss. Accounts receivable from customers that do not contain a significant financing component or for which the Company has applied the practical expedient are valued at the transaction price determined according to NBC TG 47 / IFRS 15.

For a financial asset to be classified and measured at amortized cost or at fair value through other comprehensive income, it must generate cash flows that are "Solely Payments of the Principal amount and Interest" (also referred to as the "SPPI" test) calculated in accordance with the outstanding principal amount. This evaluation occurs at the instrument level. Financial assets with cash flows that are not exclusively payments of the principal amount and interest are classified and measured at fair value through results, regardless of the business model adopted.

The Company's business model for managing financial assets refers to how it manages its financial assets to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and valued at amortized cost are maintained in a business plan with the objective of maintaining financial assets in order to obtain contractual cash flows.

Purchases or sales of financial assets that require the delivery of assets within a time frame established by market regulations or conventions (regular negotiations) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

Subsequent measurement

For subsequent measurement purposes, financial assets are classified into four categories:

i) Financial assets at amortized cost (debt instruments);
ii) Financial assets at fair value through other comprehensive income, with the reclassification of accrued gains and losses (debt instruments);
iii) Financial assets designated at fair value through other comprehensive income, without the reclassification of accrued gains and losses at the time of the derecognition (equity instruments); and
iv) Financial assets at fair value through profit or loss.

The “financial assets at amortized cost” (debt instruments) category is the most relevant for the Company. The Company measures financial assets at amortized cost if both of the following conditions are met:

i) The financial asset is maintained within a business model with the objective of maintaining financial assets in order to receive contractual cash flows; and

ii) The contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of the principal amount and interest based on the outstanding principal amount.

Financial assets at amortized cost are subsequently measured using the effective interest rate method and are subject to impairment. Gains and losses are recognized as income or losses when the asset is written off, modified or subject to impairment.

The Company's financial assets at amortized cost include cash on hand and banks, accounts receivable from customers and from related parties.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are presented on the balance sheet at fair value, with the net changes in fair value recognized in the income statement.

This category includes derivative instruments and financial investments.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

i) The rights to receive cash flows from the asset have expired.

ii) The Company transferred its rights to receive cash flows from the asset or assumed an obligation of paying the entire cash flow received without significant delays to a third party under a transfer agreement and (a) the Company substantially transferred all the risks and benefits (b) the Group neither transferred nor substantially retained all the risks and benefits of the asset but transferred control of the asset.

Impairment of Financial Assets

The Company recognizes a provision for expected credit losses for all debt instruments not held at fair value through profit or loss.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, upon initial recognition, as financial liabilities at fair value through profit or loss, financial liabilities at amortized cost or as derivatives designated as hedge instruments in an effective hedge, as appropriate. All financial liabilities are initially measured at fair value, more or less, and in cases were a financial liability that is not based on its fair value through profit or loss, transaction costs that are directly attributable to the issuance of the financial liability.

The Company's financial liabilities include suppliers, loans and financing, third parties and related parties, lease liabilities , tax obligations and tax installment payments and are classified in the category of financial liabilities at amortized cost, in addition to derivative financial instruments at fair value through profit or loss. The Company does not use hedge accounting to record and measure its derivative financial instruments.

Subsequent measurement

For subsequent measurement purposes, financial liabilities are classified according to two categories: (i) financial liabilities at fair value through profit or loss; and (ii) Financial liabilities at amortized cost.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities for negotiation and financial liabilities designated at initial recognition at fair value through profit or loss.

Financial liabilities designated at fair value through profit or loss at the initial recognition are designated on the initial recognition date and only if the NBC TG 48 / IFRS 9 criteria have been met. Financial liabilities in foreign currency have been designated at fair value to eliminate accounting mismatch between the measurement of liabilities subject to changes in exchange rates and their respective hedging instruments (swaps).

Financial liabilities at the amortized cost

This is the most relevant category for the Company. After the initial recognition, the Company's financial liabilities are subsequently measured at amortized cost, using the effective interest rate method, when subject to interest. Gains and losses are recognized in the income statement when the liabilities are discharged, as well as through the effective interest rate amortization process.

The amortized cost is calculated considering any goodwill (negative or positive) on the acquisition and fees or costs that are an integral part of the effective interest rate method. Amortization using the effective interest rate method is included as a financial expense in the income statement.

The Company's financial liabilities at amortized cost include loans and financing, accounts payable to suppliers (including operations with advances of receivables), lease liabilities and accounts payable to related parties.

Derecognition

A financial liability is removed when the obligation under the liability is extinguished, that is, when the obligation specified in the contract is settled, canceled or expires. When an existing financial liability is replaced by another liability from the same creditor on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and recognition of a new' liability. The difference in the respective book values is recognized in the income statement.

Compensation of financial instruments

Financial assets and liabilities are offset, and the net amount is reported on the balance sheet whenever there is any legal right to offset such recognized amounts and there is an intention to liquidate them on a net basis or perform the realization of the asset and liquidate the liability simultaneously.

c) Accounts receivable from customers and other credits

Accounts receivable from customers are valued at the original sale amount deducting card fees, when applicable, and the provision for expected credit losses. The expected credit losses are based on the difference between the contractual cash flows due under the contract and all the cash flows that the Company expects to receive.

d) Inventory

Inventories are stated at their cost or the net realizable value, whichever is smaller. The inventory cost includes all acquisition costs, including non-recoverable taxes. The net realizable value corresponds to the selling price in the normal course of business, subtracting the estimated costs of completion and the estimated costs necessary for the realization of the sale. Inventories are valued monthly using the weighted average cost criterion.

Management expects its inventories to be recovered in less than 12 months. When necessary, inventories are deducted from a provision for losses, established in cases where there is a write-off, obsolescence of products and losses in the physical inventory.

Provision for losses in inventories

The Company recognizes a provision for inventory losses whenever the net realizable value is less than the book value. This assessment considers products with low turnover, damaged and expired products.

In addition, a provision for losses on inventory adjustments is recognized based on the inventory plans for each store or distribution center. This estimate is calculated based on the historical percentage of differences identified in previous physical inventories.

e) Trade discounts and trade negotiations for the purchase of goods

The Company's variable discounts and premiums are substantially represented by commercial agreements in which certain goods can be traded along with other goods or at discounts which are negotiations promoted by suppliers at the Company's points of sale through various forms. These negotiations are performed individually, are different from supplier to supplier, and may have complex characteristics and conditions. The main categories of trade agreements are:

i. financial discounts granted by laboratories when performing the sale to the consumer and associated with Benefit Programs: These are benefits granted by the Company's suppliers to the final consumer with the objective of establishing a consumer loyalty process for a product or medication. In most cases, from the moment the final consumer is registered in the supplier's system, the final consumer benefits from a discount granted by the Company's supplier, paying a price for merchandise that is different from the applicable price if it was not associated to a benefits program. This discount offered by the supplier to the Company's customer is calculated in real time and recognizes, when the goods are sold to the consumer, an amount receivable from the supplier that is equivalent to the amount of the discount granted. For these types of transactions, the Company recognizes the discount as a reduction in the cost of the goods sold, in exchange for an amount receivable from sales agreement partnerships (*Convênios*) or a reduction in contract liabilities.

ii. marketing and advertising funds, such as display space in stores and promotion of offers in the Company product catalog - These are the Company's sales programs planned along with its suppliers. The supplier has an interest in promoting products in the Company's chain of stores and sales outlets. To that end, the supplier negotiates different payment terms with the Company so that the retail price of the goods sold to the consumer is advantageous, not negatively affecting the gross sales margins for these same goods under other conditions, without these promotional offers. These negotiations normally take place with the Company's procurement department along with the sales area in order to coordinate sales strategies. From the moment the performance targets have been met (sales volume of the merchandise associated with the promotional offer), the Company recognizes the result of these commercial agreements with a credit on the cost of the goods sold, considering an amount receivable from partnership sales agreements (*convênios*) or a reduction of liabilities from contracts, in exchange.

In the above cases, these are different types of negotiations which have the main objective of purchasing goods at the lowest cost offered by the supplier, regardless of how the product purchase transaction was initially proposed.

f) Investments in affiliates

The Company's investments in affiliates are accounted for using the equity method. An affiliate is an entity the Company significantly influences. Significant influence is the power to participate in decisions about the investee's operating policies, but it is not, however, joint control or control over these policies.

g) Propoerty, plan and equipment

These assets are presented at the historical acquisition cost, net of accumulated depreciation and / or accumulated impairment losses, when applicable. Depreciation is calculated using the straight-line method over the useful life of the asset, in accordance with the rates disclosed in Note 11. The residual value and useful life of assets and the depreciation methods are reviewed at the end of each fiscal year, and adjusted prospectively, when applicable.

Repair and maintenance costs are recognized as profit or loss, when incurred. The present value of the expected cost of discontinuing use of an asset after its useful life is included in the cost of the respective asset if the recognition criteria for a provision has been met.

A fixed asset is retired when sold or when there is no future economic benefit expected from its use or sale. Any gain or loss resulting from the sale of the asset (calculated as the difference between the net sales value and the book value of the asset) is included in the income statement in the year in which the asset is retired.

h) Intangible assets

Intangible assets acquired separately are measured at cost upon initial recognition. The cost of intangible assets acquired in a business combination corresponds to the fair value on the acquisition date. After initial recognition, intangible assets are stated as cost, minus the accumulated amortization and accumulated losses with a recoverable amount. Intangible assets generated internally, excluding capitalized development costs, are not capitalized and the expense is reflected in the income statement in the year in which it is incurred.

The useful lives of intangible assets are assessed as either finite or unlimited.

Intangible assets with finite lives are amortized over their useful economic life and assessed for loss due to impairment whenever there is an indication of losses regarding the asset's economic value. The period and the amortization method for intangible assets with finite lives are reviewed at least once annually, at the end of each fiscal year. Changes in the estimated useful life or the expected consumption of the future economic benefits of these assets are accounted through changes in the amortization period or method, as appropriate, and addressed as changes in accounting estimates. Amortization of intangible assets with finite lives is recognized in the income statement in the expense category that is consistent with the use of intangible assets.

Intangible assets with unlimited useful lives are not subject to amortization and are tested annually for impairment losses, individually or at the level of the cash-generating unit, according to the analysis used by Management. Non-financial assets, except for goodwill, which have been adjusted for impairment are subsequently reviewed to assess a possible reversal of the impairment on the date when the financial statements are presented.

The evaluation of unlimited useful life is reviewed annually to determine whether this evaluation is still justifiable. Otherwise, the change in the useful life from unlimited to finite will occur prospectively.

Gains and losses arising from the retirement of an intangible asset are measured as the difference between the net sales value and the book value of the asset and are recognized in the income statement at the time when the asset is retired.

Leases

The Company assesses, on the contractual starting date, whether this contract is or contains a lease. A determination is made as to whether the contract transfers the right to control of the use of an identified asset for a period of time in exchange for a specific amount.

The Company as a lessee

The Company applies a single recognition and measurement approach to all leases, except for short-term leases and leases of low-value assets. The Company recognizes lease liabilities to make lease payments and right-of-use assets that represent the right to use the underlying assets.

Right-of-use assets

The Company recognizes the right-of-use assets on the starting date of the lease (on the date when the underlying asset is available for use). Right-of-use assets are measured at cost, minus any accumulated depreciation and impairment losses, and adjusted for any new measurement of lease liabilities. The cost of right-of-use assets includes the amount of recognized lease liabilities, initial direct costs incurred, and lease payments made prior to the starting date, minus any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shortest period between the lease term and the estimated useful lives of the assets, as presented in Note 15.

Right-of-use assets are also subject to impairment. See accounting policies for the impairment of non-financial assets in Note 3 (j).

Lease liabilities

On the lease starting date, the Company recognizes lease liabilities measured at the present value of the lease payments that will be made during the lease term. Lease payments include fixed payments (including substantially fixed payments), minus any receivable lease incentives, variable lease payments that depend on an index or rate and expected amounts to be paid under the guaranteed residual value. Lease payments also include the stipulated price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate the lease.

Variable lease payments that do not depend on an index or rate are recognized as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that generates these payments occurs.

When calculating the present value of lease payments, the Company uses its incremental borrowing rate at the starting date, as the implied interest rate in the lease is not easily determinable. After the starting date, the amount of the lease liability is increased to reflect the increase in interest and reduced for lease payments made. In addition, the book amount of lease liabilities is recalculated if there is a modification, a change in the lease term, a change in lease payments (for example, changes in future payments resulting from a change in an index or rate used to determine such lease payments), or a modification in the evaluation of a purchase option for an underlying asset.

Short-term leases and low-value assets

The Company applies the recognition exemption for short-term leases to all short-term leases for machinery and equipment (that is, leases with a lease term that is equal to or less than 12 months from the starting date and which do not contain a purchase option). Recognition exemption is also applied for the recognition of low value assets such as leases of office equipment considered to have a low value.

Short-term lease and low-value lease payments are recognized as an expense using the straight-line method over the lease term.

Company as lessor

The Company does not operate with lease contracts as a lessor.

i) <u>Losses due to impairment of non-financial assets</u>

Management annually reviews the net book value of assets with the purpose of evaluating events or changes in economic, operational or technological circumstances that may indicate deterioration or loss of their recoverable value. If such evidence is identified and the net book value exceeds the recoverable value, a provision for impairment is recorded, adjusting the net book value to the recoverable value.

The recoverable value of an asset or a specific cash-generating unit is defined as the greater between the value in use and the net sale value.

When estimating the applicable value of the asset, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects the weighted average cost of capital for the industry where the cash-generating unit operates. The net sale value is determined, whenever possible, based on a firm sale agreement in a transaction with a commutative basis, between knowledgeable and interested parties, adjusted by expenses attributable to the sale of the asset, or, when there is no firm sales contract, based on the market price of an active market, or the price of the most recent transaction with similar assets.

The following criteria are also applied to assess impairment losses on specific assets:

Goodwill paid for expected future profitability

A Goodwill impairment test is performed annually or when circumstances indicate a loss due to losses in book value.

Intangible assets

Intangible assets with indefinite useful lives are tested for impairment annually on December 31, individually or at the cash-generating unit level, as applicable, or when circumstances indicate a loss due to impairment of their book value.

i) Provisions

Provisions are recognized when the Company has a present obligation (legal or non-formalized) as a result of a past event and it is probable that economic benefits will be required to liquidate the obligation and a reliable estimate of the amount of the obligation can be made. When the Company expects the value of a provision to be reimbursed, entirely or partially, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is practically certain. The expense relating to any provision is presented in the income statement, net from any reimbursement.

If the effect of the time value of the money is significant, the provisions are discounted using a current pretax rate that reflects, when applicable, the risks specifically related to the liability. When a discount is adopted, the increase in the provision due to time is recognized as a financing cost.

Provisions for tax, civil and labor risks

The Company is involved in several lawsuits and administrative proceedings. Provisions are incorporated for all contingencies related to legal proceedings for which it is likely that an outflow of resources will be made to liquidate the contingency/obligation and a reasonable estimate can be made. The assessment of the probability of losses includes assessing the available evidence, the hierarchy of laws, available jurisprudence, recent court decisions and their relevance in the legal system, as well as the assessment from outside attorneys.

Provisions are reviewed and adjusted to consider changes in circumstances, such as applicable prescription periods, conclusions of tax inspections or additional risks identified based on new matters or court decisions.

j) Employee benefits

Profit sharing plan

The Company has a profit sharing plan with the main objective of enhancing employee performance during the year. Each month, a liability and an expense for profit sharing are recognized based on estimates regarding the achievement of operational goals and specific objectives established and approved by Management. The liability is recognized on the salaries and social contributions line and on the income statement, where it is recorded under selling expenses and general and administrative expenses.

Share-based payment agreements (Restricted Share Units)

Part of the benefits for the Company's executives, include the restricted stock plan, classified as an equity instrument. The fair value of share-based payments is recognized in the income statement in accordance with the concession period, based on equity, since the program was designed and provides for payments in restricted shares of the Company.

The fair value received on the date when the share-based payment agreements granted to employees was recognized with a corresponding increase in net equity, during the period in which employees unconditionally acquired the right to such incentives.

The fair value is established on the date when the share-based payment incentives are calculated to reflect these conditions and no further adjustments are made to the differences between expected and actual results.

k) Government subsidies

Government subsidies are recognized when there is reasonable certainty that the benefit will be received and that all relevant conditions are met. When the benefit refers to an expense item, it is recognized as income over the benefit period, systematically, in relation to costs which the benefit intends to offset. When the benefit is related to an asset, it is recognized as deferred income and released in the profits or losses in equal amounts over the expected useful life of the corresponding asset.

When the Company receives non-monetary benefits, the asset and benefit are recorded at fair value and reflected in the income statement over the expected useful life of the asset, in equal annual installments. The loan or assistance is initially recognized or measured at fair value. The government subsidy is calculated as the difference between the initial book value of the loan and the results received. The loan is subsequently measured in accordance with accounting policy.

l) Revenue recognition

NBC TG 47 / IFRS 15 establishes a comprehensive framework for determining whether, when, and for how much, a revenue is recognized based on the identification of performance obligations, the transfer of control of the product or service to the customer and the determination of the sales price.

This standard establishes a model that seeks to identify whether the criteria for accounting for revenue has been met and comprises the following aspects: (i) Identification of a contract with the client; (ii) Determination of performance obligations; (iii) Determination of the transaction price; (iv) Allocation of the transaction price; and (v) Revenue recognition at a given time or over a period of time, depending on compliance with performance obligations.

Sales of goods (drugs, cosmetics and self-service products)

The Company's revenues come mainly from the sale of drugs, cosmetic products and a series of self-service products (drugs that do not require a medical prescription, food products, etc.) to the final consumer. As the company is a drugstore retail chain where consumers generally purchases the goods in stores where information concerning prices and discounts is provided by the Company's employees or obtained in the places where the goods are displayed and the transfer of control occurs when they are delivered directly to the final consumer at the points of sale, the transaction therefore represents a single performance obligation and, therefore, there is no complexity in defining the performance obligations and transferring control of goods and services to consumers.

Even so, other Company transactions subject to evaluation according to NBC TG 47 / IFRS 15 are represented by variable considerations associated with commercial agreements in which certain goods can be traded together with other goods or with discounts which are, substantially, negotiations promoted by suppliers at the Company's points of sale. The sales revenue recognized in the financial statements includes the fair values of the transactions that occurred, which, according to the nature of the negotiations, consider sales and receipt amounts from consumers complemented by receipts from suppliers.

As in physical retail operations, operations carried out via e-commerce are only recognized when all performance obligations are fulfilled (transfer of control). As our e-commerce operates using the ship from store model, delivery times for orders is greatly reduced.

Returns and cancellations

For contracts that allow the customer to return an item, in accordance with NBC TG 47 / IFRS 15, revenue is recognized to the extent that it is likely that a significant reversal will not occur. The amount of recognized revenue is recorded net of expected returns and cancellations.

Significant financing component

According to NBC TG 47 / IFRS 15, when determining the price of the transaction, the Company must adjust the promised amount of the consideration by the effects of the time value of money if the timing of payments agreed upon by the parties in the contract (explicitly or implicitly) provide the customer or the Company with a significant benefit from financing the transfer of goods or services to the customer. In these circumstances, the contract contains a significant financing component. A significant financing component may exist regardless of whether the financing promise is explicitly stated in the contract or implied in the payment terms agreed upon by the parties in the contract.

The elements of assets and liabilities arising from long-term or short-term operations, when there are significant effects, are adjusted to present value based on discount rates that reflect the best current valuations in the market.

m) Income tax and social contributions

Current taxes

Current tax assets and liabilities are measured at the expected recoverable or payable amount to the tax authorities. The tax rates and tax laws used to calculate the amount are those that are in force or substantially in force on the date of preparation of the balance sheet in countries where the Company operates and generates taxable income.

Deferred taxes

Deferred tax is generated by temporary differences in the tax bases of assets and liabilities and their book value on the date of the balance. Deferred tax liabilities are recognized for all temporary tax differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and on the date of the transaction, it does not affect the accounting profit or tax profit or loss; and

- upon temporary tax differences related to investments in subsidiaries, in which the period for reversing temporary differences can be controlled and temporary differences are not likely to be reversed in the near future.

Deferred tax assets are recognized for all deductible temporary differences, unused tax credits and losses, to the extent that it is probable that taxable profit will be available so that deductible temporary differences can be realized, and unused tax credits and losses can be utilized, except:

- when the deferred tax asset related to the deductible temporary difference is generated during the initial recognition of the asset or liability in a transaction that is not a business combination and, on the date of the transaction, does not affect the accounting profit or the tax profit or loss; and

- upon deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will be reversed in the near future and the taxable profit will be available so that the temporary differences can be utilized.

The book value of deferred tax assets is reviewed at each balance sheet preparation date and written off to the extent that it is no longer probable that taxable profit will be available to allow all or part of the tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rate that is expected to be applicable in the year in which the asset will be realized and the liability settled, based on the tax rates (and tax law) in effect on the balance sheet date.

Deferred tax assets and liabilities are presented net if there is a legal or contractual right to offset tax assets based on the tax liabilities and the deferred taxes are related to the same taxable entity and subject to the same tax authority.

n) Transaction cost for the issuance of securities

The transaction costs incurred and directly attributable to activities necessary exclusively for the achievement of the primary public distribution of shares are recorded as reductions in shareholders' equity, net of tax effects. The transaction costs incurred and directly attributable to the issuance of the Company's debentures are recorded in a liability reduction account and their realization is carried out on a straight-line basis over the term of the contract for profits or losses.

o) Adjusted present value

Long-term monetary assets and liabilities are adjusted according to inflation and therefore are adjusted to their present value. The adjusted present value of short-term monetary assets and liabilities is calculated and recorded only if considered relevant in relation to the financial statements as a whole. The adjusted present value is calculated considering the contractual cash flows and the explicit interest rate, and in some cases the implicit rate, of the respective assets and liabilities.

The adjusted present value related to purchase operations for goods is recorded in the “Suppliers” category, with a corresponding entry in the “Inventory” category. Its reversal is recorded in the cost of goods resold according to the sale of inventories and financial expenses, realized using the supplier payment terms.

The adjusted present value of resale operations for goods is offset according to the “Accounts receivable” item. Its realization is recorded in the financial income account, due to the use of the term for the receivables.

p) Borrowing costs

Borrowing costs directly related to the acquisition, construction or production of an asset that necessarily requires significant time to be completed for use or sale purposes are capitalized as part of the cost of the corresponding asset. All other borrowing costs are recorded as an expense during the period in which they are incurred. Borrowing costs comprise interest and other costs incurred by an entity that are related to the loan.

q) Transactions in foreign currency

Transactions in foreign currency are initially recorded at the exchange rate of the functional currency in effect on the date of the transaction. Monetary assets and liabilities in foreign currency are converted at the exchange rate of the functional currency in force on the balance sheet date.

All differences should be recorded in the income statement. Non-monetary items measured based on the historical cost in foreign currency are converted using the exchange rate in effect on the dates of the initial transactions.

r) Information by segment

The Company develops its business activities considering a single operating segment that is used as a basis for the management of the entity and for decision making.

s) New or revised statements applied for the first time in 2021

The Company applied certain rules and amendments for the first time, which are valid for annual periods beginning on or after January 1, 2021. The Company decided not to adopt any other standard, interpretation or amendment that has been issued but is not yet in effect.

CVM Resolution No. 854/2020

The resolution in CVM 854/2020 became valid as of January 1, 2020 and deals with changes in Technical Statements NBC TG 38 (R3), NBC TG 40 (R3) and NBC TG 48, issued by the Accounting Pronouncements Committee (CPC), as a result of the changes in the reference interest rate, related to the prevision of the discontinuance of the use of the London Interbank Offered Rate (LIBOR) as a reference interest rate after 2021. The Company evaluated the aforementioned Resolution and did not identify any impacts on these financial statements.

CVM Resolution No. 859/2020

On July 7, 2020, the CVM, (Brazilian equivalent of the Securities and Exchange Commission) approved Technical Statements Review Document Nº 16, referring to Technical Pronouncement CPC 06 (R2), issued by the Accounting Pronouncements Committee - CPC (related to NBC TG 06 (R3). This document authorizes the adoption of the practical expedient that consists of the lessee choosing not to assess whether a Covid-19 Related Benefit granted to the lessee under a Lease Agreement is a modification of the lease agreement, with any change in the lease payment resulting from the benefit granted in the lease, accounted for as if the change was not a modification of the lease. This option applies only to benefits granted under a lease agreement that occurred as a direct consequence of the Covid-19 pandemic and only if all of the conditions below are met:

a. the change in lease payments results in a revised consideration for the lease that is substantially equal to or less than the amount of the lease payment immediately prior to the change;
b. any reduction in lease payments affects only payments that are originally due on or before June 30, 2021 (for example, a benefit granted on a lease would fulfill this condition if it resulted in reduced lease payments on or before June 30, 2021, and increased lease payments that extend after 30 June 2021); and
c. there is no substantial change to other terms and conditions of the lease.

The amendment was intended to be applied until June 30, 2021, but as the impact of the Covid-19 pandemic may continue, on March 31, 2021, the CPC extended the period of application of this practical expedient to June 30, 2022. This amendment is effective for fiscal years beginning on or after January 1, 2021.

The Company adopted the practical expedient described above as it meets all of the conditions required by the pronouncement and the effects related to the matter were not significant in these financial statements.

Changes to NBC TG 15 (R4): Business definition

The amendments of NBC TG 15 (R4) clarify that, to be considered a business, an integrated set of activities and assets must include, at least, one input – an input of resources and a substantial process that, together, contributes significantly to the capacity to generate an output – an output of resources. In addition, they clarified that a business can exist without including all the inputs - inputs of resources and processes necessary to create outputs - and outputs of resources. These changes had no impact on the Company's financial statements but may impact future periods if the Company enters into any business combinations.

Changes in NBC TG 26 (R5) and NBC TG 23 (R2): Materiality definition

The amendments provide a new definition of materiality that states, "the information is material if its omission, distortion or obscurity can reasonably influence decisions that the primary users of general purpose financial statements make based on those statements, which provide financial information on the entity's specific report ". The amendments clarify that the materiality will depend on the nature or magnitude of the information, individually or combined with other information, in the context of the financial statements. Distorted information is material if it can reasonably be expected to influence decisions made by primary users. These changes had no impact on the financial statements, nor are they expected to have any future impacts on the Company.

Revision of NBC TG: Conceptual Framework for Financial Reporting

The revised pronouncement introduces some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These changes had no impact on the Company's financial statements.

t) Standards issued but not yet in force

The new and amended standards and interpretations issued but not yet in force until the date when the Company's financial statements were issued, are described below. The Company intends to adopt these new and amended standards and interpretations, if applicable, when they enter into force.

Amendment to IFRS 3 - Reference to Conceptual Framework

This amendment to IFRS 3 - Business Combinations will enter into force as of January 1, 2022, with the purpose of clarifying some changes related to the conceptual structure, without significant changes. Management is evaluating possible impacts on the Company.

IFRS 17 - Insurance contracts

IFRS 17 is effective for periods beginning on or after January 1, 2023, requiring the presentation of comparative figures. Early adoption is allowed if the entity also adopts IFRS 9 and IFRS 15 on the same date or before the initial adoption of IFRS 17. This standard does not apply to the Company.

Amendments to IAS 1: Classification of liabilities as current or non-current

In January 2020, IASB issued amendments to paragraphs 69 through 76 of IAS 1, related to NBC TG 26, in order to specify the requirements for classifying a liability as current or non-current. The amendments clarify:

- What the right to postpone liquidation means;
- That the right to postpone must exist on the base date of the report;
- That this classification is not affected by the likelihood that an entity will exercise its right to postpone;
- That only if a derivative embedded in a convertible liability is itself an equity instrument would the terms of a liability not affect its classification.

The changes are valid for periods beginning on or after January 1, 2023 and must be applied retrospectively. The Company currently assesses the impact that the changes will have on it current practice and whether existing loan agreements may require renegotiation.

Amendments to IAS 8: Definition of accounting estimates

In February 2021, the IASB issued amendments to IAS 8 (standard related to NBC TG 23), in which it introduces the definition of 'accounting estimate'. The changes clarify the distinction between changes in accounting estimates and changes in accounting policies and error correction. In addition, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The changes will be effective for periods beginning on or after January 1, 2023 and will apply for changes in accounting policies and estimates that occur on or after the beginning of that period. Early adoption is permitted if disclosed.

(Amounts in thousands of Reais)

The changes are not expected to have a significant impact on the Company's financial statements.

Amendment to IAS 16 – Property, plant and equipment: Resources before their intended use

This amendment to IFRS 16 will become effective as of January 1, 2022 and prohibits the deduction of the cost of an item of Property, Plant and Equipment from any income from the sale of items produced by placing the asset on site and in conditions necessary for it to be able to operate in the manner intended by Management. Instead, the Company shall recognize the proceeds from the sale of such items and the cost of producing such items in profit or loss for the year when incurred. Management understands that there are no impacts on the Company.

Amendment to IAS 37/ NBC TG 25 – Onerous Contracts: Cost of fulfilling a contract

This amendment to IAS 37 / NBC TG 25 will become effective as of January 1, 2022, the main amendments to which are intended to specify that the ‘cost of performance’ of a contract comprises `costs that relate directly to the contract’. Costs that directly relate to a contract can be incremental costs of fulfilling that contract or an allocation of other costs that directly relate to fulfilling contracts. Management already periodically evaluates its contracts and already recognizes possible provisions when identified.

Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of accounting policies

In February 2021, the IASB issued amendments to IAS 1 (standard related to CPC 26 (R1) and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guides and examples to help entities apply the materiality judgment for the disclosure of accounting policies. The changes are to help entities disclose accounting policies that are most useful when replacing the requirement for disclosure of significant accounting policies for material accounting policies and adding guides to how entities should apply the concept of materiality to make decisions about the disclosure of accounting policies.

Amendments to IAS 1 apply for periods beginning on or after January 1, 2023, with early adoption permitted. Since changes to Practice Statement 2 provide non-mandatory guides in applying the material definition to accounting policy information, a date for adoption of this change is not required.

The Company is currently evaluating the impacts of these changes on the accounting policies disclosed.

4. CASH AND CASH EQUIVALENTS

	2021	2020
Cash and banks	54,436	48,674
Short-term investments	599,685	540,412
Repo operations	70,514	45,670
Certificates of Bank Deposits - CDB	487,488	377,348
Financial securities - LF	30,798	108,707
Automatic investments	10,885	8,687
Total	654,121	589,086

Short-term financial investments are held in sound financial institutions and have low credit risk. They are compensated by the variation of the Interbank Deposit Certificate (CDI) rate and are available for immediate use without loss of income, being distributed among CDBs, with an average return rate of 104.6% (106.2% on 12/31/2020), Repo Operations , considering an average return of 97.2% (90.5% on 12/31/2020), Financial Securities (LF), with an average return rate of 114.0% (110.5% on 12/31/2020). These operations have a maturity period that is less than three months from the contracting date and because they meet the NBC TG 03 (R3) requirements, were classified as cash equivalents.

5. ACCOUNTS RECEIVABLE FROM CUSTOMERS

(Amounts in thousands of Reais)

	2021	2020
Credit and debit card companies	508,492	511,516
Agreements and partnerships (*convênios*) (a)	26,476	9,732
Drug Benefit Program - PBM (b)	-	6,249
Commissions Receivable	86	220
Subtotal	535,054	527,717
(-) Adjusted present value	(4,022)	(3,783)
(-) Expected credit losses	(764)	(994)
Total	530,268	522,940

a) They refer to amounts receivable from companies that have group purchasing agreements (*convênios*) with the Company. The main purpose of the agreements is to grant discounts to employees, as well as to enable customers to pay for purchases made using payroll discount plans.

b) The Drug Benefits Program - PBM records the balance receivable from sales of drugs linked to benefit programs and discounts subsidized by the manufacturers. As of 2021, the balances receivable from the Medicine Benefits Program – PBM are registered in the Trade Agreements section.

The balances were adjusted to present value, considering an average payment collection period between 45 and 58 days (2020: 33 and 40 days) and discounted at the rate of the average cost of capital.

The balances of receivables by maturity are shown below, before the provision for expected credit losses and adjusted present value:

	2021	2020
Coming due between 1 to 30 days	273,115	275,103
Coming due between 31 and 60 days	121,388	138,184
Coming due between 61 and 90 days	76,693	63,959
Coming due in more than 90 days	63,033	48,543
	534,229	525,789
1 to 30 days overdue	628	369
31 to 90 days overdue	53	176
More than 90 days overdue	144	1,383
	825	1,928
Total	535,054	527,717

a) *Expected credit loss transactions:*

	2021	2020
Opening balance	(994)	(5,604)
Additions	(1,064)	(425)
Reversals	1,294	5,035
Closing balance	(764)	(994)

6. INVENTORY

	2021	2020
Merchandise for Resale	1,974,467	1,725,500
Materials for use and consumption	6,198	5,487
(-) Expected inventory losses	(23,708)	(28,892)
	1,956,957	1,702,095

(Amounts in thousands of Reais)

Changes in expected inventory losses:

	2021	2020
Opening balance	(28,892)	(27,792)
Additions	(10,843)	(17,634)
Reversals	16,027	16,534
Closing balance	(23,708)	(28,892)

7. RECOVERABLE TAXES

	2021	2020
ICMS (a)	424,743	347,442
IRPJ / CSLL (b)	2,927	2,891
PIS and COFINS (c)	207,262	172,371
INSS (d)	9,475	33,028
IRRF	1,279	12,412
Others	1,139	984
	646,825	569,128
Current	232,407	198,318
Non-current	414,418	370,810

(a) Balance resulting from the normal ICMS calculation regime and balances referring to non-definitive ICMS ST credits, where the presumed tax bases were higher than the effective margins. The credits were recognized as a result of a decision by the STF (Brazilian Supreme Court), with generalized repercussions, which guaranteed the right of reimbursement to the taxpayer who paid ICMS ST in advance based on calculation bases that are higher than those actually made. Tax credits from periods prior to the STF decision were not recognized. The amounts are compensated administratively after compliance with the requirements defined by each State.

(b) Overpayment of IRPJ (Corporate Income Tax) and negative CSLL (Social Contribution) balance when calculating the real profit for the previous year.

(c) In August 2019, the Company obtained a favorable and unappealable decision in a lawsuit which discussed the right to the exclusion of the ICMS included in invoices (Notas Fiscais), according to the PIS and COFINS calculation basis. The Company is in the process of executing the decision to refund the amounts unduly paid, reaching a total amount of BRL 191,944, of which BRL 42,711, refers to monetary correction. In addition, the Company recognizes credits arising from the non-cumulative regime, mainly arising from the acquisition of goods, the acquisition of services and inputs considered relevant and essential to the sale of products and provision of services.

(d) Balance was fully offset during the first half of 2021. The amount of BRL 9,475 refers to the remaining balance of credits arising from a final and unappealable court decision, which removed the incidence of social security contribution on certain labor amounts.

On September 24, 2021, the Superior Federal Court - STF (“STF”) unanimously judged in a plenary decision the non-levying of IR and CSLL on the amounts related to the SELIC rate, received by the taxpayer due to the repetition of taxes not owed. On August 10, 2021, the Company filed a Civil Writ of Mandamus aiming at recognizing the right to non-payment of IRPJ and CSLL on the amounts resulting from monetary correction and interest penalties, including SELIC rate, calculated on tax credits due to repetition of taxes not owed, concentrated in the cases commented on in items (c) and (d) above, whose estimated and unregistered value is BRL 16,200. The Company awaits the final and unappealable decision of its lawsuit for effective fiscal compensation of the amounts.

(Amounts in thousands of Reais)

8. DEFERRED TAXES

	2021	2020
Tax losses	113,789	113,789
Capitalization of Interest	(5,909)	(5,796)
Fair Value of derivative financial instruments	-	(1,968)
Fair value of financial liabilities	-	15
Provision for store closings	2,204	2,581
Provision for inventory acquisition	8,061	9,823
Provision for goodwill impairment	6,543	6,543
Profit sharing	3,508	3,825
Commercial leasing	38,922	26,800
Expected credit losses	6,001	4,806
Provisions for contingencies	7,672	9,262
Adjustment to present value	3,075	4,413
Other provisions	20,152	18,462
Total	204,018	192,555

a) *Expected realization*

The Company, based on forecasts made and approved by Management, related to the estimate of future taxable profits, recognized the deferred tax credits on tax losses, negative bases of social contributions and temporary differences, up to the limit of its offsetting capacity, which do not have a limit date for their compensation, which is is limited to 30% of the Company's annual taxable profits. The recovery of the amount of deferred taxes is reviewed annually.

The estimates are related to the Company's ability to obtain the expected results, considering certain economic aspects and the market it operates in. The results may differ from the estimates if the forecasted conditions are not confirmed. According to the forecasts made, the balances of deferred taxes will be recovered according to the following schedule.

	2021	2020
2021	-	6,943
2022	26,089	7,683
2023	16,384	16,384
2024	24,752	24,752
2025	38,949	38,949
2025 and after	97,844	97,844
	204,018	192,555

b) *Expected realization*

	2021	2020
Net income before Income Tax and Social Contribution on Net Income	173,329	68,598
Combined tax rate [B]	34%	34%
IR / CSLL at the combined tax rate [A] * [B] = [C]	58,932	23,323
Effect of permanent additions: [D]	861	1,318
Other permanent additions	861	1,318
Effect of permanent exclusions: [E]	148,096	150,605
Investment subsidy	117,204	108,270
Equity Method Results	2,231	1,312
Creation of tax loss	26,124	-

(Amounts in thousands of Reais)

	2021	2020
IPO expenses	1,447	41,023
Other permanent exclusions	1,090	-
Current tax loss [A] + [D] - [E] = [F]	26,094	(80,689)
Deferred IR / CSLL on tax losses not incurred [G]	-	-
IR / CSLL on the profits and losses [F] * 34% + [G] = [H]	(8,872)	27,434
Effective rate [H] / [A]	-5.1%	40.0%

* Deferred IR / CSLL not recorded due to the forecast of future results.

The Company assessed the impacts of IFRIC 23 (ITG 2) - Uncertainties related to how taxes on profit will be considered, concluding that its effects until the present are not relevant.

9. RELATED PARTIES

		2021			2020		
Related parties	Type of operation	Asset	Liabilities	Result	Asset	Liabilities	Result
Other accounts receivable							
Dupar Participações S.A.	Other credits	1	-	-	-	-	-
Suppliers							
Biomatika Ind. E Com. Prod. Naturais S.A. (a)	Purchase of products	-	511	-	-	842	-
ePharma PBM do Brasil S.A. (b)	Services provided	915	-	-	1,048	-	(1,999)
L'auto Cargo Transportes Rodoviário S.A. (c)	Transport of goods	-	8,672	(105,039)	-	4,647	(110,283)
Leases							
Renda Participações S.A. (d)	Property rentals	-	801	(9,174)	-	690	(8,232)
Dupar Participações S.A. (d)	Property rentals	-	6,105	(70,645)	-	8,169	(64,255)
Prospar Participações S.A. (d)	Property rentals	-	134	(1,452)	-	104	(1,190)
Total		916	16,223	(186,310)	1,048	14,452	(185,959)

a) Biomatika Indústria e Comércio de Produtos Naturais SA, a jointly controlled company, is focused on manufacturing cosmetics, perfumes and personal hygiene products. The contract between the parties establishes the production of products with the Pague Menos brand. The margins obtained on these products are higher than those obtained from other suppliers due to the lower level of advertising and bonuses, among other factors.

b) e-Pharma PBM do Brasil – S.A. - Programa de Benefícios de Medicina da Saúde, invested in by the Company, is primarily focused on the development and commercialization of pharmaceutical and health care management services, providing the know-how and technological tools for their implementation and operation. The Company has significant influence on this invested company, but not control. Thus, the commercial practices carried out are comparable to those practiced by other market players.

c) L'auto Cargo Transportes Rodoviário SA, a jointly controlled company, is focused on cargo transport by truck. All freight transportation contracts go through a bidding process and are selected according to the best technical (service level) and commercial proposal. The Company has a current contract for the provision of freight transport services with L'auto, in the estimated total amount of BRL 200,000 with a two (2) year term, which was approved by the Board of Directors in October 2020. The prices for these services are established according to percentage rates calculated on the basis of the tax invoice value of the goods transported and vary according to the rates established, by each individual state.

d) Renda Participações SA, Dupar Participações SA and Prospar Participações SA, companies under joint control, manage their own properties as well as properties of third parties. The Company leases 357 properties, where it operates some of its stores. Rents are calculated based on the monthly sales of the stores. For properties occupied by Management and distribution centers, rents are set as fixed amounts.

Transactions with related parties were carried out, considering analyses made by Management for each operation, and they do not differ from normal market practices.

Management compensation

(Amounts in thousands of Reais)

Management compensation totaled BRL 21,304 in the period ended December 31, 2021 (BRL 20,431 as of December 31, 2020). The Company does not have a post-employment benefits policy. Additionally, since 2020, the Company has established a share-based compensation program, as disclosed in Note 19. In 2021, BRL 4,753 were paid and in the year ending on that date, expenses in the amount of BRL 6,146 were recognized due to this program.

Warranties, endorsements and guarantees with related parties

The Company also has transactions in which related parties provide warranties, endorsements or guarantees for financing and loan agreements made to the Company, as follows:

Related party guarantor	2021	2020
Surety bond and joint and several debtors (Note 14)	**337,383**	**727,295**
Individuals (shareholders)	102,182	477,270
Dupar Participações S.A.	235,201	250,025
Real Estate (Note 14)	**52,183**	**52,183**
Dupar Participações S.A.	52,183	52,183

10. INVESTMENTS

	2021	2020
e-Pharma PBM do Brasil S.A.	10,001	8,202
Goodwill on investment acquisitions	81,838	81,838
(-) impairments	(19,243)	(19,243)
	72,596	70,797

a) *Investment financial transactions*

	2021	2020
Opening balance January 1	70,797	70,290
Dividend distribution	-	(165)
Interest receivable on equity	(432)	(640)
Equity Method Results	2,231	1,312
Final balance on December 31	72,596	70,797

Information - invested company

On December 28, 2015, the Company acquired 26.21% of the shares of e-Pharma PBM do Brasil SA, at a total cost of BRL 90,000, with a net equity of BRL 8,162, consequently, goodwill based on the expected future profitability was calculated to be BRL 81,838. The principal business of e-Pharma PBM do Brasil SA is managing drug benefit programs. As of December 31, 2021, and 2020, the Company holds 26.18% of the investee's shares. The reduction in the Company`s stake is due to the stock option plan for investee executives.

Goodwill Impairment

The Company assessed, based on December 31, 2021, the recovery of the book value of the remaining goodwill leading to the acquisition of e-Pharma PBM do Brasil SA, using the discounted cash flow model allocated to the cash generating unit that generated the related goodwill.

The recoverable amount of sales made by the cash-generating unit whose acquisition was determined through a calculation based on the value in use from cash forecasts for financial budgets approved by Management over a period of five years. The forecasted cash flow has been updated to reflect changes in the demand for products and services. The discount rate applied to the cash flow forecasts was 17.5% (2020: 11.46%) before taxes. The discount rates represent the risk assessment in the current market, specifically for the investee, considering the time value of money and the individual risks of related assets that were not incorporated in the assumptions included in the cash flow model. The discount rate calculation is based on specific circumstances of the investee, resulting from the weighted average costs of capital (WACC). The WACC considers debt and equity. The cost of equity results from the expected return on investment made by investors. The cost of debt is based on interest-bearing financing that the Company is required to fulfill. The specific risk of the investee is incorporated through the application of individual beta factors. Beta factors are assessed annually based on publicly available market data .

(Amounts in thousands of Reais)

Main assumptions used in calculations based on the value-in-use

The calculation of the value-in-use for the related cash generating units, forecasted for the next 5 years, is more sensitive to the following assumptions:

Sales revenue and expenses

Adjustments in drug prices and inflation of other traded goods and selling expenses are calculated according to the forecast for overall inflation or index rates established in contracts. The assumptions adopted in the impairment tests comply with the internal forecasts for the five-year period. After the five year period, extrapolation is applied using a perpetuity growth rate of 3.0% (2020: 3.3%), in a nominal model.

Gross margin

The gross margin is based on the value of the most recent month, in order to avoid seasonal variations or market conditions.

The recovery test did not identify the need for additional recognition of a new provision to reduce the recoverable amount of goodwill, in addition to the amount already accounted for.

An increase in the discount rate before taxes (WACC) of 10% would bring the rate to 19.3%, resulting in a recoverable amount of BRL 249,896, compared to the evaluation of the base scenario in the Discounted Cash Flow Model of BRL 281,542. A 10% reduction in the Perpetual Growth Rate (g) to 2.7% would result in the recoverable amount of BRL 278,044. In the worst case scenario of the current model, the valuation would be BRL 247,265, which would result in an additional loss of BRL 7,862.

11. FIXED ASSETS

		2021			2020		
	Annual Rate	Cost	Depreciation	Net	Cost	Depreciation	Net
Construction work in progress	-	39,620	-	39,620	9,051	-	9,051
Improvements in third-party properties	(i)	854,942	(405,596)	449,346	743,462	(359,786)	383,676
Facilities	10%	106,492	(48,696)	57,796	93,844	(41,737)	52,107
Machines and equipment	10%	108,414	(65,925)	42,489	98,332	(58,459)	39,873
Furniture and fixtures	10%	120,681	(52,893)	67,788	97,916	(43,663)	54,253
Vehicles	20%	350	(350)	-	350	(350)	-
IT equipment	20%	65,797	(51,220)	14,577	59,068	(49,723)	9,345
Advance payments to suppliers	-	133	-	133	127	-	127
Provision for store closings	-	(16,383)	10,245	(6,138)	(23,565)	16,422	(7,143)
Total		1,280,046	(614,435)	665,611	1,078,585	(537,296)	541,289

(i) The depreciation of improvements is calculated according to the term of each rental agreement, which varies between 5 and 25 years, reaching an average depreciation rate of 6% per year.

a) *Changes in fiscal year 2021*

(Amounts in thousands of Reais)

	01/01/2021	Acquisitions	Write-off of assets	Depreciation	Transfers	12/31/2021
Construction work in progress	9,051	36,109	-	-	(5.540)	39,620
Improvements in third-party properties	383,676	118,131	(4,609)	(50,767)	2,915	449,346
Installations	52,107	13,887	(296)	(8,784)	882	57,796
Machines and equipment	39,873	11,332	(24)	(8,752)	60	42,489
Furniture and fixtures	54,253	22,923	(50)	(10,107)	769	67,788
IT equipment	9,345	9,492	(2)	(4,326)	68	14,577
Advance payments to suppliers	127	-	6	-	-	133
Provision for store closings	(7,143)	1,005	-	-	-	(6,138)
Total	541,289	212,879	(4,975)	(82,736)	(846)	665,611

Transfers, in the amount of BRL 846, refer to trade funds, software and websites, reclassified as intangible assets.

b) Changes in the fiscal year of 2020

	01/01/2020	Acquisitions	Write-off of assets	Depreciation	Transfers	12/31/2020
Construction work in progress	4,290	8,436	(199)	-	(3,476)	9,051
Improvements in third-party properties	417,600	12,670	(4,205)	(45,333)	2,944	383,676
Installations	55,024	6,306	(924)	(8,301)	2	52,107
Machinery and equipment	46,261	2,101	(2)	(8,671)	184	39,873
Furniture and tools	60,970	2,475	(23)	(9,332)	163	54,253
Vehicles	9	-	-	(9)	-	-
IT equipment	10,524	3,208	(1)	(4,386)	-	9,345
Advance payments to suppliers	-	127	-	-	-	127
Provision for store closings	(12,524)	(11,224)	16,605	-	-	(7,143)
Total	582,154	24,099	11,251	(76,032)	(183)	541,289

The transfers, in the amount of BRL 183, refer to goodwill, software and websites, reclassified as intangible assets.

Provision for store closings

The Company recognized a provision for closing stores, in the amount of BRL 6,138 as of December 31, 2021 (BRL 7,143 in 2020). The recoverability analysis considers the individualized result for each store and the expected recovery of investments. Stores that do not have sufficient results to recover investments are subject to the recognition of a provision for their closing.

Capitalization of loan interest

The Company recognized the amount of BRL 2,141 on December 31, 2021 (BRL 142 in 2020) related to borrowing costs for the acquisition of qualifying assets, initially recognized in profit or loss for the period.

12. INTANGIBLE

		2021			2020		
	Annual Rate	Cost	Amortization	Net	Cost	Amortization	Net
Brands	(i)	4,289	-	4,289	4,289	-	4,289
Trade Funds	(ii)	19,805	(16,751)	3,054	19,905	(14,880)	5,025
Software	20%	94,720	(47,052)	47,668	59,888	(39,145)	20,743
Websites	10%	111	(61)	50	78	(55)	23
Intangible assets in use	-	3,494	-	3,494	8,232	-	8,232
Provision for store closings	-	(983)	638	(345)	(1,427)	980	(447)
Total		121,436	(63,226)	58,210	90,965	(53,100)	37,865

(i) Balance related to the acquisition cost for the “Pague Menos” brand in the State of Paraíba. As it is considered an intangible asset with no defined useful life, the Company assesses the need to recognize impairment losses. Considering Management's concept of materiality, previous calculations indicated that the recoverable value of this asset is significantly higher than its book value and there were no events that eliminated this difference, so the Company did not estimate the recoverable value of the referred asset once again and the previously used assumptions remain valid.

(Amounts in thousands of Reais)

(ii) The amortization of the trade fund is calculated over the term of each store rental contract, which vary between 5 and 25 years, reaching an average amortization rate of 8.6% per annum.

a) Changes in the fiscal year 2021

	01/01/2021	Acquisitions	Write-offs	Amortization	Transfers	12/31/2021
Brands	4,289	-	-	-	-	4,289
Goodwill	5,025	80	(28)	(2,023)	-	3,054
Software	20,743	26,022	(77)	(8,060)	9,040	47,668
Websites	23	19	(24)	(6)	38	50
Intangible assets in use	8,232	3,494	-	-	(8,232)	3,494
Provision for store closings	(447)	102	-	-	-	(345)
Total	37,865	29,717	(129)	(10,089)	846	58,210

The residual values of transfers refer to the reclassifications between intangible and fixed assets.

b) Changes in the fiscal year of 2020

	01/01/2020	Acquisitions	Write-offs	Amortization	Transfers	12/31/2020
Brands	4,289	-	-	-	-	4,289
Trade Fund	7,562	-	(194)	(2,479)	136	5,025
Software	23,685	6,485	(535)	(8,939)	47	20,743
Websites	65	7	(42)	(7)	-	23
Intangible assets in use	-	8,232	-	-	-	8,232
Provision for store closings	(454)	(282)	289	-	-	(447)
Total	35,147	14,442	(482)	(11,425)	183	37,865

The residual values of transfers refer to the reclassifications between intangible and fixed assets.

13. SUPPLIERS

	2021	2020
Suppliers	1,226,435	1,186,970
Advances of receivables (a)	104,064	76,278
Subtotal	1,330,499	1,263,248
Adjusted present value (i)	(24,007)	(18,758)
Total	1,306,492	1,244,490

The advancing of receivables operations by the Company do not materially modify the purchasing conditions (payments, prices and negotiated terms) with suppliers, which continue as usual market practices. These operations enable suppliers to better manage their cash flow needs, intensifying commercial relations with the Company. In addition, in these transactions there is no obligation that generates expense for the Company or earned interest shared with the financial institution. The Company's Management also considered the guidance of CVM SNC/SEP norm nº 01/2021, observing the qualitative aspects on this topic and concluded that there are no relevant impacts, nor does it affect the Company's leverage.

(i) Supplier balances suffer the effects of adjustments to present value considering an average payment term between 70 and 78 days and an average rate of payment (2020: 59 to 78 days). The exchange for the adjusted present value is based on inventory, being recognized in the income statement as part of the cost of goods sold at the time of sale. The recovery of the balance of the liability related to interest over time is recognized as a financial expense.

(Amounts in thousands of Reais)

a) *By maturity*

	2021	2020
From 1 to 30 days	484,531	452,140
from 31 to 60 days	413,761	329,343
from 61 to 90 days	158,248	170,360
Over 91 days	273,959	311,405
Total	1,330,499	1,263,248

b) *Balance concentration*

	2021	2020
Largest supplier	12%	13%
from the 2nd to 25th	50%	51%
from the 26th to 50th	15%	14%
Other suppliers	23%	22%
Total	100%	100%

14. LOANS, FINANCING AND DEBENTURES

Bank	Type	Average interest rate	2021	2020
Loans				
Banco do Brasil	Working capital	118% of the CDI.	71,544	87,216
Safra	Working capital swap USD x CDI	CDI + 1.55% p.a.	-	20,666
Santander	FRN	CDI + 5.30% p.a.	-	105,385
Santander	Working capital	CDI + 2.50% p.a.	162,595	-
Santander	Working capital	CDI + 1.80% p.a.	-	63,287
Itaú	Working capital	CDI + 2.50% p.a.	101,893	100,420
Banco do Brasil	Working capital	115% of the CDI.	63,643	77,770
Banco da Amazônia	Working capital	CDI + 3.04% p.a.	-	14,564
			399,675	469,308
Financing				
Banco do Brasil	FCO	3.50% p.a.	16,925	21,389
Banco do Nordeste do Brasil	FNE	100% of the TFC	32,949	54,871
Banco do Nordeste do Brasil	FNE	3.5% p.a.	24,264	36,376
Banco do Nordeste do Brasil	FNE	TLP IPCA + 2.18%	10,562	12,095
			84,700	124,731
Debentures				
4th Debenture Issue	Unsecured	CDI + 1.95%	200,765	199,962
5th Debenture Issue	Unsecured	CDI + 1.51%	51,692	84,475
6th Debenture Issue	Unsecured	CDI + 1.75%	99,065	-
6th Debenture Issue	Unsecured	CDI + 2.20%	353,714	-
			705,236	284,437
Total gross amount of loans, financing and debentures			1,189,611	878,476
Current			435,702	241,629
Non-current			753,909	636,847
Derivative instruments Safra swap x USD (i)			-	(5,788)
Total net amount of loans, financing and debentures			1,189,611	872,688

i. (i) The Company carried out funding in foreign currency under the "4131" modality, which are exempt from IOF tax, which were settled by June 30, 2021. In order to protect the foreign exchange exposure of these operations, the Company contracted *swaps* in the same terms, rates and amounts. The Company measured these liabilities at their fair value based on results, avoiding accounting mismatches. Further details are disclosed in Item 25.

(Amounts in thousands of Reais)

a) *Changes in the gross balance of loans, financing and debentures*

	2021	2020
Opening balances	878,476	938,988
Funding of loans, financing and debentures	610,000	324,000
Accrued Interest	56,373	45,229
Amortization of principal of loans, financing and debentures	(300,801)	(454,432)
Amortization of interest on loans, financing and debentures	(50,763)	(38,047)
Exchange rate changes	908	60,220
Change in the value of financial liabilities measured at fair value	(51)	2,555
Appropriation of borrowing costs to results	(4,531)	(37)
Closing balance	1,189,611	878,476

b) *Characteristics of Debentures*

Offered on February 11, 2019, the 4th issue of simple debentures, in the amount of BRL 200,000, maturing on February 11, 2024, remunerated by the variation of the CDI + 1.95% p.a., on July 21, 2019, the 5th issue of simple debentures, in the amount of BRL 100,000, maturing on January 21, 2023 and remunerated by the variation of the CDI + 1.51% p.a. and on November 5, 2021, the 6th issue of simple debentures, in the amount of BRL 450,000, maturing on November 5, 2026 for the debentures of the first series, remunerated by the variation of the CDI +1.75% p.a., and maturing on November 5, 2028, remunerated by the variation of CDI + 2.20% p.a., for the debentures of the second series.

Neither issuance is convertible into shares, unsecured, with an additional personal guarantee, in a single series, for public distribution with restricted distribution efforts, under the terms of the Brazilian securities regulator (Comissão de Valores Mobiliários "CVM") Instruction 476. The debentures do not have renegotiation clauses. The funds raised were used to reinforce working capital.

c) *Disbursement schedule*

	12/31/2021	12/31/2020
01/01/2022 - 12/31/2022	-	365,450
01/01/2023 - 12/31/2023	189,542	166,770
01/01/2024 - 12/31/2024	130,340	96,835
After 12/31/2024	434,027	7,792
Total	753,909	636,847

d) *Composition by currency*

	2021	2020
In Brazilian reais - BRL	1,189,611	857,810
In US Dollars - USD	-	20,666
Total	1,189,611	878,476

(Amounts in thousands of Reais)

e) Guarantees

	2021	2020
Guarantee / Endorsement (Related parties - Note 9)	337,383	727,295
Fiduciary assignment of credit rights	117,707	142,115
Bank guarantees	40,831	78,620
Real Estate (Related Parties - Note 9)	52,183	52,183
	548,104	1,000,213

f) Restrictive contractual clauses (covenants)

Financial ratios and limits are verified on a quarterly basis based on the Company's financial statements until the full repayment of the amounts due. As of December 31, 2021, these amounts were within the contractually defined limits. The Company is also in compliance with the other non-financial covenants .

15. LEASES

a) Composition of right of use assets

	Properties	IT equipment	Machines and equipment	Total
Balances on January 1, 2021	1,263,421	53,735	27,754	1,344,910
Additions	152,443	20,353	1,446	174,242
Remeasurement	306,383	-	-	306,383
Write-offs	(24,009)	(8)	(44)	(24,061)
Depreciation	(156,609)	(19,259)	(9,961)	(185,829)
Balance on December 31, 2021	1,541,629	54,821	19,195	1,615,645

b) Lease liabilities

Cost	Properties	IT equipment	Machines and equipment	Total
Balances on January 1, 2021	1,337,653	57,360	28,721	1,423,734
Additions	152,443	20,353	1,446	174,242
Remeasurement	306,383	-	-	306,383
Write-offs	(27,514)	(9)	(47)	(27,570)
Accrued Interest	114,224	4,325	1,689	120,238
Payments	(232,395)	(23,163)	(11,348)	(266,906)
Balance on December 31, 2021	1,650,794	58,866	20,461	1,730,121
Short Term	187,332	23,684	11,131	222,147
Long Term	1,463,462	35,182	9,330	1,507,974

c) Lease liability maturity schedule

(Amounts in thousands of Reais)

	2021	2020
01/01/2022 - 12/31/2022	-	167,036
01/01/2023 - 12/31/2023	208,765	152,098
01/01/2024 - 12/31/2024	172,589	121,299
01/01/2025 – 12/31/2025	156,214	108,504
Above 01/01/2026	970,406	702,517
Total	1,507,974	1,251,454

d) Potential PIS AND COFINS credits

The Company is entitled to PIS and COFINS credits in rental contracts registered according to NBC TG 06 (R3) when these payments occur. The potential for these tax credits is shown below. Part of the real estate lease agreements do not generate the right to PIS and COFINS credits, as they are signed with individual lessors, therefore these credits are not permitted according to tax legislation.

	2021	2020
Lease consideration	2,300,082	2,246,562
Potential PIS and COFINS (9.25%)	138,635	113,379

e) “Misleading” caused by the full application of NBC TG 06 (R3)

In accordance with OFFICIAL NOTICE / CVM / SNC / SEP / N° 02/2019, the Company adopted the requirements of NBC TG 06 (R3) as its accounting policy for the measurement and re-measurement of its rights of use, using the discounted cash flow method, without considering inflation.

In order to safeguard the reliable representation of the information based on the requirements in NBC TG 06 (R3) and to comply with the guidelines from the CVM technical area, the liability balances are presented without inflation, effectively accounted for (real cash flow x nominal rate), and the estimate of the balances with inflation are provided in the comparison periods (nominal flow x nominal rate).

	Real cash flow		Cash flow with inflation	
	2021	2020	2021	2020
Properties	1,650,794	1,337,653	1,944,306	1,669,707
IT equipment	58,866	57,360	64,788	61,004
Machines and equipment	20,461	28,721	22,519	30,411
Total	1,730,121	1,423,734	2,031,613	1,761,122

Other assumptions, such as the maturity schedule of the liabilities and interest rates used in the calculation, are disclosed in other items of this explanatory note, as well as the inflation indexes observable in the market, so that the nominal cash flows can be calculated by the users of the financial statements.

16. TAXES OWED

(Amounts in thousands of Reais)

	2021	2020
PERT	8,513	8,970
ICMS	60,442	67,174
IRPJ / CSLL	8,761	6,834
ISS	12,149	3,531
INSS / FGTS	11,038	27,917
Others	369	187
Total	101,272	114,613
Current	94,095	106,399
Non-Current	7,177	8,214

17. PROVISION FOR CONTINGENCIES

	2021	2020
Administrative	517	868
Civil	3,207	2,819
Labor Related	18,596	23,215
Fiscal	245	339
Total	22,565	27,241

Provisions for civil contingencies are consist of lawsuits in individual amounts that are disperse, mainly due to cases seeking punitive and / or material damages due to two situations: consumer relations and theft inside our stores.

Labor contingencies consist of lawsuits whose individual amounts are also disperse and refer substantially to claims regarding severance pay, related to overtime or salary differences and which may impact adjustments in other amounts such as vacations, FGTS and prior notice payments.

a) *Lawsuit transactions in the period*

	01/01/2021	Additions	Reversals	Payments	12/31/2021
Administrative	868	453	(434)	(370)	517
Civil	2,819	708	(243)	(77)	3,207
Labor Related	23,215	5,063	(3,378)	(6,304)	18,596
Fiscal	339	238	(195)	(137)	245
Total	27,241	6,462	(4,250)	(6,888)	22,565

	01/01/2020	Additions	Reversals	Payments	12/31/2020
Administrative	712	825	(86)	(583)	868
Civil	4,929	1,152	(3,077)	(185)	2,819
Labor Related	15,115	9,736	(998)	(638)	23,215
Fiscal	492	96	(232)	(17)	339
Total	21,248	11,809	(4,393)	(1,423)	27,241

b) *Contingent liabilities - Possible risk of loss*

As of December 31, 2021, the Company was a party in lawsuits classified by its legal advisors as a possible risk of loss in the amount of BRL 377,294 (BRL 298.676 in 2020), for which no provisions were recorded.

(Amounts in thousands of Reais)

The type and estimated amounts are shown below:

	2021	2020
Administrative	638	8,602
Civil	2,410	5,043
Labor Related	42,564	6,207
Fiscal	331,682	278,824
Total	377,294	298,676

Fiscal: Refers to notifications, mostly tax related, of debit entries which, in the opinion of the Company and its legal advisors, do not have a factual basis, and therefore have the possibility of annulment. The principal cases are listed below:

i) ICMS debt annulment action

An annulment action aimed at canceling the penalty representing an amount of BRL 139,834 on December 31, 2021 (BRL 84,040 in 2020), which was filed against the Company demanding ICMS payments due to the recording of credits in amounts higher than those highlighted in the invoices for the entry of products intended for sale, which, according to the tax auditors, would have (in the opinion of the tax authorities) caused a failure to pay the ICMS tax during the period from March 2014 to December 2018.

ii) PIS and COFINS credits on inputs

Penalty notification issued in December 2020, in the amount of BRL 122,575, requiring PIS and COFINS amounts arising from tax credits recorded in the period from December 2015 to December 2016, related to expenses with goods and services used as inputs (examples: cleaning services, payment card administration fees, freight, among others), in which the Federal Revenue Service, based on the restrictive interpretation of art. 3, item II, of Law 10.637 / 02 and Law 10.833 / 03 and due to the fact that the Company is primarily engaged in retail trade, does not consider possible.

Labor: Refers to claims arising from severance pay which, in the opinion of the Company, were fully settled at the time of dismissal, thus leading to confidence in the inadmissibility of these claims.

Administrative: Refers to notifications arising from the procedures adopted at the stores, in most cases due to mere errors in the interpretation of the regulation.

Civil: Refers to the causes with punitive and / or material damages, in the plaintiff's opinion, incurred inside of our stores. As the Company's policy is to respect consumers completely, this interpretation is considered to be without merit.

18. SHAREHOLDER EQUITY

a) Capital stock

As of December 31, 2021, and 2020, the Company's capital stock, fully subscribed and paid-in in the amount of BRL 1,241,689, from which the amount of BRL 42,470 (BRL 41,023 in 2020) referring to the costs of issuing shares arising from the IPO carried out in September 2020 is deducted, totaling BRL 1,199,219 (BRL 1,200,666 in 2020). As of December 31, 2021, and 2020, this amount of the Company's capital stock is represented by 443,781,062 common shares, all registered, book-entry and without par value.

The Company is authorized, upon a decision by the Board of Directors, to increase its share capital, regardless of amendments to the bylaws, through the issuance of up to 150,000,000 (one hundred and fifty million) new common shares.

b) Capital reserves

(Amounts in thousands of Reais)

	2021	2020
Goodwill on the issuance of shares (i)	386,650	386,650
Share issuance costs	(11,390)	(11,390)
Restricted Stock Plan (iii)	14.146	7,842
Treasury shares	20,040	-
Incorporation reserve	330	330
Total	369,696	383,432

i. According to the Investment Agreement between the Company and General Atlantic Brasil Investimentos SA, a goodwill reserve for the issuance of shares in the amount of BRL 397,357, and in 2017 and 2018 reversions of BRL 6,527 and BRL 4,180 respectively, were made, due to the indemnity paid to the subscribing shareholders.
ii. Amount referring to the share issuing cost of BRL 11,390 in the investment operation by General Atlantic Brasil Investimentos SA in 2015.
iii. As disclosed in Note 19, in 2020, the creation of a Restricted Stock Plan was approved. See Note 19 for details about the Plan and benefits granted.

c) Profit reserves

Legal reserve

Established at the rate of 5% of the net income determined in each fiscal year, up to the limit of 20% of the share capital, after the allocation of the tax incentive reserve.

Tax incentive reserve

Established with a portion of the profit resulting from investment subsidies received by the Company, as detailed in Note 21 - Government subsidies.

d) Allocation of profits

As determined in the Company Bylaws, the accrued losses, if any, and the provision for income tax and social contributions calculated upon profit, will be deducted from the fiscal year results before any profit participation takes place.

The net profit for the year will be allocated as follows:

- 5% (five percent) will be applied, after the allocation of the tax incentive reserve, to establish the legal reserve, which will not exceed 20% (twenty percent) of the subscribed share capital. In the fiscal year where the balance of the legal reserve plus the amount of the capital reserves referred to in paragraph 1 of article 182 of the Brazilian Corporation Law exceeds 30% (thirty percent) of the share capital, it is not mandatory to allocate part of the net income for the year to the legal reserve;

- A portion allocated for the payment of the minimum mandatory annual dividend to shareholders, not less than 25% (twenty-five percent) of the net income for the year, in compliance with the provisions of Article 35 of the Bylaws and Article 202 of the Brazilian Corporation Law;

- Management may present a proposal to retain a portion based on a previously approved capital budget, pursuant to article 196 of the Brazilian Corporation Law;

- and the balance will be allocated by the General Shareholder´s Meeting, in compliance with the legal requirements and provisions of the Bylaws.

(Amounts in thousands of Reais)

As of December 31, 2020, the allocation of net income for the year was:

	2021	2020
Net income for the year	164,457	96,033
Allocation for the tax incentive reserve (profit reserves)	(164,457)	(96,033)

According to note 21, the amounts received through government subsidies must be fully allocated to the tax incentive reserve. If the profit available after the establishment of the legal reserve is not sufficient to fully allocate the subsidy received during the year, the Company must replace the reserve with profits from subsequent periods.

e) Treasury shares

On December 9, 2020, the Company's Board of Directors approved a Buyback Program for up to 1,100,000 common shares, during a 3 month period, with March 9, 2021, set as the final date. Under the Program, the Company acquired, from its launch to the closing date, the amount of 1,040,000 (one million and forty thousand) common shares, in the total amount of BRL 10,424, at an average cost of BRL 10,02 per share, of which 786,170 (seven hundred and eighty-six thousand, one hundred and seventy) shares remain in treasury at an average cost of BRL 9,85 per share, totaling BRL 7,743.

On December 1, 2021, the Company's Board of Directors approved a new Repurchase Program of up to 2,000,000 shares, within 3 months, ending on March 1, 2022. Under this program, the Company acquired from its launch until December 31, 2021, the amount of 1,600,000 (one million six hundred thousand) common shares, in the total amount of BRL 12,296.

19. STOCK-BASED COMPENSATION PLANS

Restricted Share Plan

The Company's Long-Term Incentive Plan with Restricted Shares was approved at the Extraordinary General Meeting held on June 25, 2020, which the objective of granting restricted shares to the participants selected by the Board of Directors, in order to: (i) attract and retain directors, managers and high-level employees of the Company and its subsidiaries; (ii) grant participants the opportunity to become shareholders of the Company, obtaining, as a consequence, a greater participation and alignment with the Company´s objectives; and (iii) to develop the corporate purposes of the Company and interests of shareholders. During the term of the Restricted Share Plan, shares representing up to 1.5% of the Company's share capital may be delivered to the participants. The balance of the Restricted Stock Plan as of December 31, 2021, is BRL 14,146 (BRL 7,842 as of December 31, 2020).

The Board of Directors is responsible for selecting the directors, independent members of the Board of Directors, managers and top level employees to whom the Company may grant one or more common, registered, book-entry shares with no par value, subject to the restrictions provided for in the Restricted Stock Plan, program and / or in the related grant agreement.

20. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit attributable to the Company's shareholders by the weighted average number of outstanding common shares during the year.

The calculation of earnings per share for the years ended December 31, 2021, and 2020 is presented below:

2021	2020

Earnings per share, attributable to shareholders, for the period	164,457	96,033
Weighted number of shares during the period (thousands of shares)	443,781	375,697
Basic, diluted earnings per share - BRL	0.371	0.256

As of March 31, 2021, and 2020, there were no restricted shares with a potentially dilutive effect.

21. GOVERNMENT SUBSIDIES

The Company has special taxation regimes, related to the ICMS, granted by the States of Ceará, Goiás, Pernambuco, and Bahia, which generate a reduction in the tax burden in these States, in exchange for various commitments the Company has agreed to. The Company has systematically met these requirements.

The Company recognized in its earnings for the fiscal year of 2021, as a reduction in the cost of goods sold, the amount of BRL 117,204 (BRL 108,270 as of December 31, 2020). The amounts obtained from government subsidies are treated as tax incentives and duly allocated annually to the tax incentive reserve.

As of December 31, 2021, the balance of this reserve is BRL 488,580 (BRL 324,123 in 2020).

22. NET REVENUE

	2021	2020
Sale of goods	7,871,897	7,257,302
Services provided	190,976	51,146
Gross revenue	8,062,873	7,308,448
Taxes levied on sales	(439,355)	(375,589)
Returns and Rebates	(53,482)	(44,317)
Adjustment to present value	(41,326)	(30,050)
Sales deductions	(534,163)	(449,956)
Net revenue	7,528,710	6,858,492

23. COSTS AND EXPENSES

a) By account:

	2021	2020
Cost of goods sold	(5,108,147)	(4,737,825)
Selling expenses	(1,777.24)	(1,583,398)
Administrative and general expenses	(271,820)	(219,605)
Total costs and expenses	(7,157,212)	(6,540,828)

b) By type:

	2021	2020
Cost of Goods	(5,108,147)	(4,737,825)
Personnel expenses	(1,093,008)	(1,012,812)
Rental expenses	(33,617)	(26,497)
General expenses	(643,786)	(513,104)
Depreciation and amortization	(278,654)	(250,590)
Total costs and expenses	(7,157,212)	(6,540,828)

(Amounts in thousands of Reais)

24. FINANCIAL RESULTS

	2021	2020
Financial revenue		
Revenue from financial investments	14,383	3,281
Changes in the Fair Value of derivative financial instruments	8,403	135,175
Changes in the Fair Value of financial liabilities	51	1,461
Adjustment to present value	41,087	29,058
Exchange rate variation	4,725	29,381
Revenue Monetary Correction	9,051	6,325
Other financial revenue	1,861	295
Total financial revenue	79,561	204,976
Financial expenses		
Provisioned interest	(53,678)	(44,806)
Lease interest	(120,238)	(115,138)
Changes in the fair value of derivative financial instruments	(7,422)	(77,761)
Changes in the fair value of financial liabilities	-	(3,769)
Adjustment to present value	(83,859)	(93,762)
Exchange rate variation	(5,638)	(89,608)
Other financial expenses	(9,386)	(33,315)
Total financial expenses	(280,221)	(458,159)
Financial results	(200,660)	(253,183)

25. FINANCIAL INSTRUMENTS

a) Composition of financial instruments

The accounting balances and fair values of the financial instruments included in the balance sheet as of December 31, 2021, and 2020 are identified below:

	2021		2020	
Description	Accounting	Fair value	Accounting	Fair value
Measured at amortized cost				
Cash and cash equivalents	654,121	654,121	589,086	589,086
Financial investments	8,639	8,639	40,397	40,397
Accounts receivable from customers	530,268	530,268	522,940	522,940
Suppliers	(1,306,492)	(1,306,492)	(1,244,490)	(1,244,490)
Financing and loans	(484,375)	(490,298)	(510,086)	(615,775)
Debentures	(705,236)	(717,891)	(284,437)	(296,730)
Lease liabilities	(1,730,121)	(1,730,121)	(1,423,734)	(1,665,378)
Financial assets measured at fair value through profit and loss				
Financing and loans	-	-	(20,666)	(20,666)
Derivative financial instruments (foreign currency swaps)	-	-	5,788	5,788

b) Structure and management of financial risks

Credit risk

Credit risk is the risk that the Company will incur losses from customers or counterparties in a financial instrument, resulting from their failure to comply with contractual obligations.

(Amounts in thousands of Reais)

The Company is exposed to credit risk for cash and cash equivalents, short-term investments, accounts receivable and derivative financial instruments.

Financial investments, bank deposits and derivative financial instruments.

The Company has balances held with financial institutions, referring to bank deposits, short-term investments and derivative financial instruments in the amount of BRL 662,760 on December 31, 2021 (BRL 606,902 in 2020), which represent its maximum credit exposure. Credit risk with financial institutions is managed by the Company's Treasury in accordance with established policy. Such funds are maintained in solid, first-rate financial institutions. These balances are spread over these institutions in order to minimize the concentration of risk and, thus, mitigate a financial loss due to a potential bankruptcy of the counterparty.

Accounts receivable from credit cards

For Accounts Receivable balances, the credit risk is mitigated by the fact that a large part of the Company's sales are made using credit cards as a means of payment, which are substantially securitized with the credit card administrators. The balance receivable from customers is highly pulverized, with no individual amounts that are representative.

Considering the possible risk arising from the transfer of credit card companies, this is controlled through a rigorous reconciliation process between daily billing and receipt processes. The Company operates with top management and market leaders; therefore, Management believes that such risk is low.

The balances of credit card receivables, by maturity, are shown below:

	2021	2020
Reaching maturity		
From 1 to 30 days	259,468	268,275
31 to 60 days	109,297	130,738
61 to 90 days	76,693	63,959
Over 90 days	63,034	48,544
Total	508,492	511,516

There are no overdue balances held with credit card companies.

Liquidity risk

The risk that the Company may have difficulties to meet obligations associated with its financial liabilities, which are settled with cash payments or another financial asset. The Company's approach to liquidity management is to ensure that there is always sufficient liquidity to meet its obligations upon maturity, under normal and stressed conditions, without causing unacceptable losses or damaging the Company's reputation.

The Company carefully monitors its cash flow through periodic stress tests, which, in addition to the fulfillment of financial obligations, permits it to make short-term operations in the financial market, in order to monetize surplus cash.

The contractual maturities of the main financial instruments are shown below:

As of December 31, 2021	Book Value	Contract Amount	1 year or less	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Cash and cash equivalents (Note 4)	654,121	654,121	654,121	-	-	-
Accounts receivable from customers (Note 5)	530,268	530,268	530,268	-	-	-
Suppliers (Note 13)	(1,306,492)	(1,306,492)	(1,306,492)	-	-	-
Leasing (Note 15)	(1,730,121)	(1,730,121)	(222,147)	(208,765)	(328,803)	(970,406)

(Amounts in thousands of Reais)

Financing and loans, net of derivative transactions (Note 14)	(484,375)	(484,375)	(314,703)	(93,426)	(76,246)	-
Debentures (Note 14)	(705,236)	(705,236)	(120,999)	(96,116)	(138,707)	(349,414)

As of December 31, 2020	Book Value	Contract Amount	1 year or less	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Cash and cash equivalents (Note 4)	589,086	589,086	616,527	-	-	-
Accounts receivable from customers (Note 5)	522,940	522,940	522,940	-	-	-
Suppliers (Note 13)	(1,244,490)	(1,244,490)	(1,244,490)	-	-	-
Leases	(1,423,734)	(1,423,734)	(172,280)	(167,037)	(381,900)	(702,517)
Financing and loans, net of derivative transactions (Note 14)	(588,251)	(588,251)	(201,331)	(252,185)	(134,386)	(349)
Debentures (Note 14)	(284,437)	(284,437)	(34,510)	(113,265)	(136,662)	-

Market risk

This is the risk that changes in market prices, such as exchange rates, interest rates and commodity prices, may have an impact on the Company's earnings or on the value of its participation in financial instruments.

Management understands that, in the Company´s context, all market risks, mentioned above, are mitigated and refer mainly to fluctuations in interest and exchange rates.

Interest rate risk

The Company seeks to diversify fundraising in terms of pre-fixed or post-fixed rates and, in certain circumstances, operations are carried out with derivative financial instruments to protect the financial cost of operations.

Variations in interest rates affect both the Company's financial assets and liabilities. Below we show the impacts of these variations on the profitability of financial investments and the indebtedness in the Company's national currency, linked to the CDI. The sensitivity of the Company's financial assets and liabilities was demonstrated in two improbable scenarios.

We present a scenario with nominal rates verified on December 31, 2021 (book balance based on the 9.15% p.a. closing CDI) and the probable scenario considered by Management, which corresponds to the forecast of the CDI curve considering the base rate as of closing on December 31, 2021, according to the BM&F Bovespa interest rate curve for CDI (between December 2020 and January 2026) and two more scenarios with a 25% appreciation (Scenario I) and 50% (Scenario II) of the indexes.

Additional sensitivity analysis

The Company's financial instruments are represented by cash and cash equivalents, short-term investments, accounts receivable, suppliers, suppliers and loans and financing, debentures and leases, and are recorded at cost, plus income or expenses incurred, which on December 31, 2021, and 2020 approach market values. The risks linked to the Company's operations are related to CDI (Interbank Deposit Certificate) rate variations.

Regarding loans, financing and debentures, these refer to operations with a registered value that is close to the market value of these financial instruments. Investments with CDI indexing are recorded at market value, according to values published by the respective financial institutions and others refer mostly to bank deposit certificates, repo operations and investment funds, therefore, the registered value of these securities is in line with their market value.

In order to verify the sensitivity of the index the Company was exposed to on the base date of December 31, 2020, different scenarios were defined, using the latest interest rates accrued in the last twelve months (Scenario I), and based on this, variations of 25% (Scenario II) and 50% (Scenario III) were calculated, affecting the increase and decrtease of indexes. For each scenario, the net position (financial income minus financial expenses) was calculated, without considering the tax effect. The base date used for the portfolio was December 31, 2021, with a one year forecast and verifying the sensitivity of the CDI index in each scenario.

(Amounts in thousands of Reais)

December 31, 2021

Financial institutions and modalities	Risk (rate)	Accounting balance	Probable scenario	Scenario I 25%	Scenario II 50%
Financing and loans	CDI Increase	484,375	6,638	8,058	9,479
Debentures	CDI Increase	705,236	10,532	12,756	14,979
Financial investments	CDI Decrease	599,685	(6,162)	(7,702)	(9,243)
Net exposure (financial expense)			11,008	13,112	15,215

December 31, 2020

Financial institutions and modalities	Risk (rate)	Accounting balance	Probable scenario	Scenario I 25%	Scenario II 50%
Financing and loans	CDI rate Increase	469,308	1,709	6,336	9,031
Debentures	CDI rate Increase	284,437	934	3,328	4,744
Financial investments	CDI rate decrease	433,835	(10)	(15)	(22)
Net exposure (financial expense)			2,633	9,649	13,753

Currency exchange risk

The Company has a policy of contracting derivative financial instruments to hedge financial transactions carried out in foreign currencies. These operations are realized with the same institutions that originated the original credit and in the same amount in order to avoid any mismatch in the two positions. The Company settled these contracts simultaneously with the respective loans prior to December 31, 2021, thus zeroing the balance of derivative financial instruments (BRL 5,788 on December 31, 2020).

In order to measure the estimated net impact on the results, resulting from currency fluctuation risks, a sensitivity analysis of the Company's exposure to foreign exchange loan risk and the CDI of the swap contract was prepared considering the three scenarios below .

December 31, 2020

Transaction	Risk (Currency)	Exposure	Probable scenario	Scenario I	Scenario II
Foreign Currency Loans	U.S. Dollar appreciation	3,967	-	5,166	10,333
Derivative instruments	U.S. Dollar appreciation	(3,967)	-	(5,271)	(10,541)
Net exposure (financial result)		-	-	(104)	(208)

Capital management

Management's policy is to maintain a solid capital base to maintain investor, creditor and market confidence and to continue the future development of the business. The Executive Board monitors the return on capital, which is defined as the results of operating activities divided by total shareholder equity.

The Board also monitors the level of dividends for its shareholders.

The leverage ratio is presented below:

(Amounts in thousands of Reais)

	2021	2020
Loans, financing and debentures	1,189,611	878,476
Derivative operations	-	(5,788)
Loans, financing and debentures, net of derivative financial instruments	1,189,611	872,688
(-) Cash and cash equivalents	(654,121)	(589,086)
(-)Financial investments	(8,639)	(40,397)
Net debt	526,851	243,205
Equity	2,090,197	1,940,923
Leverage ratio	0.25	0.13

Fair value hierarchy

The following table presents financial instruments recorded at fair value and their respective hierarchies.

	12/31/2021		
Description	Level 1	Level 2	Level 3
Share-based compensation plan	-	-	14.146

	12/31/2020		
Description	Level 1	Level 2	Level 3
Share-based compensation plan	-	-	7,842
Financing and loans measured at fair value through profit or loss	-	20,666	-
Derivative financial instruments - asset balance swaps	-	5,788	-

The different levels were defined as follows:

Level 1 - quoted prices in active markets for identical assets and liabilities;
Level 2 - Inputs, except for quoted prices, included in Level 1, that are observable for the asset or liability, directly (prices) or indirectly (derived from prices);
Level 3 - Assumptions, for assets or liabilities, that are not based on observable market data (unobservable inputs).

Fair value measurement

Below the valuation techniques used to measure the fair values of Level 2 and 3 are detailed, as well as the significant unobservable *inputs* used.

Financing, loans and debentures - measured at amortized cost

This category includes financing, loans and debentures linked to the TJLP (Long term interest rate) and the CDI, as well as those with fixed rates. The fair value was determined based on the present value of the principal and future cash flows, discounted by the average future CDI rate, corresponding to all loans, due between 2020 and 2026, calculated on the date the financial statements were presented.

Financing and loans - financial liabilities measured at fair value through profit or loss

This category includes financing and loans designated since they were initially contracted as financial liabilities measured at fair value through profit or loss, which meet the classification criteria defined by NBC TG 48 - Financial Instruments: Recognition and Measurement.

The fair value of these liabilities is based on the discount of estimated future cash flows based on the conditions and maturity of each contract and using the exchange coupon plus a spread, which is obtained in the quotation with financial institutions to reflect the change in the Company's risk scenario in the discounted period.

(Amounts in thousands of Reais)

Following are the gains or (losses) on financing and loans measured at fair value through profit or loss.

Description	12/31/2020 Book value	Fair value	Adjustment (loss)	Adjustment (gains)
Financing and loans measured at fair value through profit or loss	20,666	20,666	1,461	(3,769)

26. Insurance coverage

The Company maintains the following insurance coverage for its stores, distribution centers and headquarters:

Modality	2021	2020
Maximum Insurance Coverage Limit	405,000	405,000
Civil Liability Limit	15,000	15,000
Material Damage Limit	46,400	46,400
Civil Liability for Directors, Officers and / or Administrators	15,000	15,000

***

COMMENTONS ON OF BUSINESS PROJECTIONS

According to the material fact published by the company on September 1, 2021, *Empreendimentos Pague Menos S.A.* ("Company") projects a gross opening of 80 stores for the year ended December 31, 2021, and the gross opening of 120 stores for the year ended December 31, 2022.

In the fourth quarter of 2021 48 stores were opened, totaling 80 openings accumulated in the year, thus reaching the forecast for the year We reiterate our projection of 120 gross opening for 2022

Year	Projection	Actual
2021	80 openings	80 openings
2022	120 openings	N/A

Financial Statements

Empreendimentos Pague Menos S.A.

December 31, 2021
with Independent Auditor's Report

Building a better
working world

Centro Empresarial Iguatemi
Av. Washington Soares, 55
5º andar - sala 506 a 509 - Bairro Cocó
60811-341 - Fortaleza - CE - Brasil
Tel: +55 85 3392-5600
Fax:+55 85 3392-5659
ey.com.br

A free translation from Portuguese into English of Independent Auditor's Report on financial statements prepared in Brazilian currency in accordance with accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB)

Independent auditor's report on financial statements

To the Shareholders, Board of Directors and Officers
Empreendimentos Pague Menos S.A.
Fortaleza - CE

Opinion

We have audited the financial statements of Empreendimentos Pague Menos S.A. ("Company"), which comprise the statement of financial position as at December 31, 2021, and the statements of profit or loss, of comprehensive income, of changes in equity, and of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2021, and its financial performance and cash flows for the year then ended in accordance with accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

Basis for opinion

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the relevant ethical principles set forth in the Code of Professional Ethics for Accountants and the professional standards issued by Brazil's National Association of State Boards of Accountancy (CFC), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key audit matters

Key audit matters are those that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide separate opinion on these matters. For each matter below, our description of how our audit addressed the matter, including any commentary on the findings or outcome of our procedures, is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Information technology general controls

The Company, affected by its high number of transactions and geographic dispersion, uses a complex internal structure of computerized and integrated management systems. Accordingly, the efficiency in the design and operation of these controls is of such importance so that the accounting records and, consequently, the financial statements are free from material misstatements. This complex structure, which involves several stores in all the states in the country and five distribution centers, is at different maturation levels and the risks related to material information technology processes for the transactions processed in the different systems can result in critical incorrect information, including that used in the preparation of the financial statements. Due to the significance of the internal control structure to the Company, we consider this matter as a key audit matter.

How our audit addressed this matter:

Our procedures included involvement of IT specialists to assist us in understanding of the information system environments that affect the entire business structure of the Company. The deficiencies in the design and operation of IT general controls related to logical access and change management impacted our evaluation of the nature, timing and extent of our substantive procedures planned to allow us to obtain sufficient and appropriate audit evidence. Due to identification of deficiencies in the design of IT general controls, our additional procedures included the substantive assessment of the integrity of the reports produced by the related systems and used in our audit procedures.

Based on the results of the above procedures, the information extracted from the Company's systems used in the planning and performance of our audit tests, was considered acceptable in the context of the financial statements taken as a whole.

Vendors’ rebates

Vendors’ rebates and promotional contributions are regular commercial practices in the retail sector. The Company receives many types of rebates, as disclosed in Note 3.e, which are a significant component in the determination of the cost of sales.

This was considered a key audit matter in view of the volumes involved, and due to the fact that recognition of the benefit and its consequent recording in inventories and/or costs require judgment by the Company management in relation to the nature, compliance with the obligations described in the trade agreements signed with vendors, estimates adopted to calculate the amounts, and the timing of recognition of the rebates reducing the cost of sales, in the statement of profit or loss for the year.

How our audit addressed this matter:

Our procedures included the following, among others: (i) evaluation and understanding of accounting policies for the determination and recording of the vendors' rebates; (ii) selection of a sample of trade agreements for examination of their terms, recalculation of the amounts of rebates and matching with accounting records; (iii) analysis of the assumptions used for determination of the compliance with obligations with suppliers and the respective period for recognition of rebates in the statement of profit or loss; (iv) examination of subsequent receipts; and (v) analysis of rebates linked to face-to-face events that were affected by the COVID-19 pandemic.

Based on the results of the above procedures, which are consistent with management's evaluation, we considered that the criteria and assumptions adopted for recognition and disclosure of revenue from vendors' rebates are acceptable, in the context of the financial statements taken as a whole.

Other matters

Statement of value added

The statement of value added (SVA) for the year ended December 31, 2021, prepared under the responsibility of the Company's management, and presented as supplementary information for purposes of IFRS, was submitted to audit procedures conducted together with the audit of the Company's financial statements. To form our opinion, we evaluated if this statement is reconciled to the financial statements and accounting records, as applicable, and if its form and content comply with the criteria defined by NBC TG 09 – Statement of Value Added. In our opinion, this statement of value added was prepared fairly, in all material respects, in accordance with the criteria defined in the abovementioned accounting pronouncement, and is consistent in relation to the overall financial statements.

Other information accompanying the financial statements and the auditor's report

Management is responsible for such other information, which comprises the Management Report.

Our opinion on the financial statements does not cover the Management Report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management Report and, in doing so, consider whether this report is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of the Management Report, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Brazilian and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Brazilian and International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements, including applicable independence requirements, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Fortaleza, March 09, 2022

ERNST & YOUNG
Auditores Independentes S.S.
CRC 2SP015199/O-6

Henrique Piereck de Sá
Accountant CRC PE023398/O-3

In accordance with article 25, paragraph 1, items V and VI, of CVM Instruction 480/09, the Company's Officers declare that they have reviewed, discussed and agreed with the release of the financial statements.

Fortaleza, March 09, 2022

____

Mario Henrique Alves de Queirós
Chief Executive Officer

____

Luiz Renato Novais
Chief Financial and Investor Relations Officer

____

Marcos Ricardo Colares
Vice President of Commercial and Supply

____

José Carlos Rafael de Assis Vasquez
Vice President of Operations, Digital and Expansion

____

Jorge Alexandre Jubilato Araújo
Vice President of People, Legal and Administrative

____

Joaquim Dias Garcia Neto
Vice President of Information Technology

____

Afro José Campos de Vasconcelos
Director of Infrastructure and Technology

Emanuele de Sousa Rodrigues
Director of Category Management and Marketing

Evandro Vieira da Silva
Director of Personnel and Management

Rafael Lima e Silva
Director of Expansion

Samir Mesquita Inácio
Director of Digital

Thiago da Cunha Peixoto Ladeira
Director of Operations

Jadson Antonio Santos de Almeida
Directors of Technology Applications

Gianni Dias Gill
Director of Operations

Andre Albuquerque Ferreira Pinto Bandeira
Director of Operations

Renan Vieira Barbosa

Director of Supply Chain

In accordance with article 25, paragraph 1, items V and VI, of CVM Instruction 480/09, the Company's Officers declare that they have reviewed, discussed and agreed with the opinions expressed in the favorable Special Review Report without exceptions by the independent auditors, referring to the quarter ended December 31, 2021.

Fortaleza, March 09, 2022.

____

Mario Henrique Alves de Queirós
Chief Executive Officer

____

Luiz Renato Novais
Chief Financial and Investor Relations Officer

____

Marcos Ricardo Colares
Vice President of Commercial and Supply

____

José Carlos Rafael de Assis Vasquez
Vice President of Operations, Digital and Expansion

____

Jorge Alexandre Jubilato Araújo
Vice President of People, Legal and Administrative

____

Joaquim Dias Garcia Neto
Vice President of Information Technology

____

Afro José Campos de Vasconcelos
Director of Infrastructure and Technology

Emanuele de Sousa Rodrigues
Director of Category Management and Marketing

Evandro Vieira da Silva
Director of Personnel and Management

Rafael Lima e Silva
Director of Expansion

Samir Mesquita Inácio
Director of Digital

Thiago da Cunha Peixoto Ladeira
Director of Operations

Jadson Antonio Santos de Almeida
Directors of Technology Applications

Gianni Dias Gill
Director of Operations

Andre Albuquerque Ferreira Pinto Bandeira
Director of Operations

Renan Vieira Barbosa

Director of Supply Chain